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Print Edition November 11th 2006

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George Bush's presidency seems smaller after the mid-terms; but he can still produce a useful legacy: leader

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Politics this week

Nov 9th 2006
From The Economist print edition

EPA

The Democrats did better than expected in **America's mid-term elections**. They handily won the House of Representatives, ousting the Republicans who have controlled the chamber since 1995 and positioning Nancy Pelosi as the first female speaker, and seemed to have secured the Senate by a narrow margin. See article

With the issue of Iraq prominent in the elections, a prominent casualty of the Republican rout was **Donald Rumsfeld**, who resigned as defence secretary. Earlier, the *Army Times*, the voice of America's troops, had called for him to go. George Bush nominated **Robert Gates**, a former head of the CIA, as his new defence chief. See article

Democrats also did well in the various **governors'** races, giving them control of the majority of governorships for the first time in 12 years. **Colorado** and **Ohio**, seen as bellwether states in the 2008 presidential race, were among the states they picked up. They also won **Massachusetts**, making Deval Patrick the second black man to be elected to a governor's office. There was consolation for the Republicans in **California**, where Arnold Schwarzenegger romped to victory, and **Florida**, where Charlie Crist won, but only after he embarrassed George Bush by ducking out of a campaign rally with him. See article

Plenty of state **initiatives** were on the ballot. South Dakota's voters rejected stringent restrictions on **abortion** that had been passed by the legislature and which anti-abortion advocates were hoping would provide a test case in the Supreme Court. Arizona passed a raft of measures targeting **illegal immigrants**, such as making English the state's official language, but produced a surprise by becoming the first state to reject a constitutional ban on **gay marriage**. Measures banning same-sex nuptials were passed elsewhere. See article

Everlasting?

Political parties and Maoist rebels in **Nepal** reached a peace agreement. The Maoists will submit to United Nations supervision of their fighters and weapons, and will join an interim government. See article

Thailand's authorities, seeking to pacify its troubled Muslim-majority south, freed 92 southerners detained over the 2004 Tak Bai protest, in which the police and army killed more than 80 Muslims.

A suicide bomber killed more than 40 soldiers at an army training camp in north-west **Pakistan**. The army blamed the attack on militants taking revenge for the bombing of an Islamic college in a nearby tribal area on October 30th, which killed 80.

Reuters

Protesters took to the streets of **Taiwan**'s capital to demand the resignation of the president, Chen Shui-bian, after prosecutors said they had evidence of corruption by both himself and his wife. He denied the charges and stayed put, with the support of his party. See article

In eastern **Sri Lanka**, at least 45 civilians were killed when army shells hit a camp sheltering people displaced by the war with Tamil Tiger rebels.

Born again

Daniel Ortega, the leader of **Nicaragua's** Sandinistas, won a presidential election. With 91% of the vote counted, he had 38%, a nine-point lead over his nearest rival, Eduardo Montealegre, who was backed by the United States. Mr Ortega was Nicaragua's president during the Sandinista revolution from 1979-90. See article

In **Mexico**, bombs damaged the Federal Elections Tribunal, a Canadian bank and the offices of the formerly ruling Institutional Revolutionary Party (PRI) in the capital. A small leftist group said it placed the devices to support a five-month uprising against the PRI governor of the southern state of Oaxaca.

Cuba's foreign minister said he did not want to "speculate" about whether Fidel Castro, the country's ailing president, would be well enough to attend an official celebration of his 80th birthday next month. In July Mr Castro was operated on for "intestinal bleeding". He is widely thought to be suffering from cancer.

Must do better

The European Commission published its annual report on **Turkey** and other candidates for membership of the European Union. The report was highly critical of Turkey's progress, though it stopped short of recommending a suspension of the membership talks. An EU summit in December will now consider that option. See article

An attempt to end the British opt-out from the EU's maximum **working-time** rules failed. But several countries may now be taken to court for not counting doctors' on-call time against the limits.

In an unexpected development after last week's election, the Spanish region of **Catalonia** is to have a new government made up of three left-wing parties, led by the Socialists. That consigns the centre-right nationalist party which won the largest share of the vote to opposition.

The three candidates for the Socialist Party's nomination in **France's** presidential election held a final televised debate. The frontrunner, Ségolène Royal, is clinging to her lead, though it has shrunk and some doubt whether she will win on the first round. See article

Judicial review

Reuters

Saddam Hussein was sentenced to death for ordering the killing of 148 people in the mainly Shia town of Dujail in 1982. He then appeared in court again, on trial for the slaughter of more than 100,000 Kurds during the Anfal campaign in 1987 and 1988. See article

Iraq prepared a law to allow former members (excluding the most senior) of Saddam's **Baath Party** to return to the public-service jobs they were ousted from in 2003. Separately, Iraq's interior ministry charged 57 employees with torturing prisoners at a detention centre in Baghdad.

Hours after the Israeli army ended its six-day occupation of **Beit Hanoun** in Gaza, its artillery bombarded the town, killing—by accident, it said—at least 19 Palestinians.

Talks on forming a **Palestine** national unity government were resumed but got off to a slow start. Hamas, which runs the Palestinian Authority, proposed an alternative to the current prime minister, Ismail Haniyeh. Its opponents did not accept him. See article

Chad accused Sudan of "exporting the genocide" from its Darfur region over the border. Chad's army has been engaged in fierce fighting with rebel forces which it says are backed by Sudan.

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Business this week

Nov 9th 2006
From The Economist print edition

Private-equity firms came under scrutiny on both sides of the Atlantic. It emerged that America's Justice Department has expanded its informal inquiry into possible antitrust practices among firms that join together in giant "club" buy-outs. And Britain's Financial Services Authority published a detailed paper on private equity that highlights possible dangers. It says private-equity firms appear to pose fewer risks than hedge funds, and are unlikely to threaten the broader economic system. See article

Meanwhile, the rush of private-equity deals continued. **Linde**, which specialises in industrial chemicals, sold its forklift truck business for *euro*4 billion ($5 billion) in Germany's biggest-ever leveraged buy-out. And the parent of the **Outback Restaurant** chain, based in Tampa, was picked up for $3.2 billion. **Vivendi**, a French media group, revealed it had rejected an "expression of interest" from Kohlberg Kravis Roberts, reportedly worth up to $50 billion.

Sharp indeed

Four Seasons Hotels received a $3.7 billion buy-out proposal from Isadore Sharp, its chief executive and founder. As in other recent bids from management to take companies private, concerns were raised about a potential conflict of interest in the sale. Mr Sharp stands to gain $288m from the deal and indicated he would not welcome rival offers.

FedEx cancelled its order for ten cargo-carrying versions of **Airbus's** A380 and placed an order with Boeing instead. It was the first customer to cancel a contract for the super-jumbo. The logistics and freight company said delays to the troubled project were hindering its expansion plans. Meanwhile, **EADS**, Airbus's parent company, reported a net loss of *euro*195m ($250m) for the third quarter on the back of the production woes. See article

In a surprise announcement, Bernd Pischetsrieder said he was stepping down as **Volkswagen's** chief executive, a decision viewed as a victory for the carmaker's chairman, Ferdinand Piëch, with whom Mr Pischetsrieder has had a rocky relationship over VW's restructuring plans. See article

Toyota issued a forecast showing it was on track to make an operating profit of ¥2.2 trillion ($18.7 billion) for this fiscal year, which would be the biggest profit ever for a Japanese company. The carmaker also unveiled a partnership with Isuzu, a truck- and engine-maker, to develop Toyota's range of fuel-efficient cars.

General Motors also said it was expanding its manufacturing of energy-efficient cars—in China. From 2008 GM will make petrol-and-electric hybrid cars in the country, which is a bright spot in an otherwise bleak sales landscape for the company. Separately, GM said its third- quarter loss, which it reported two weeks ago as being $115m, was actually $91m.

In a decision that some analysts said was inevitable, Lakshmi Mittal was appointed chief executive of the newly merged **Arcelor Mittal**, the world's biggest steelmaker. Mr Mittal fought a protracted battle to combine Mittal Steel with Arcelor that annoyed some politicians in Europe, where Arcelor is based. In order to secure the deal, he had agreed to take a non-executive position.

Abbott Laboratories agreed to buy **Kos Pharmaceuticals** for $3.7 billion. The deal gives Abbott, based in Illinois, greater access to the growing market for pharmaceuticals that boost "good" cholesterol (or high-density lipoprotein), and thus help fight heart disease.

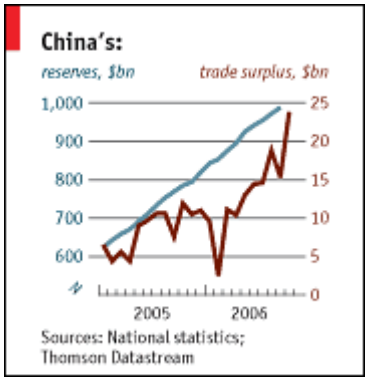
They love LA

Eli Broad, a billionaire philanthropist, and **Ronald Burkle**, a supermarket mogul, both based in Los Angeles, submitted a joint bid to buy the **Tribune** media group, which includes the troubled *Los Angeles Times* among its assets. Earlier, the newspaper's editor resigned after refusing to implement job cuts demanded by the paper's owners. Several private-equity firms launched bids for Tribune last month.

Vietnam gained the formal approval of the World Trade Organisation to become its 150th member. The process for negotiations with Vietnam began in January 1995, some one-and-a-half years after Russia's started. Russia is still waiting to join.

Storing up more trouble?

China's **trade surplus** rose to a record $23.8 billion in October on the back of strong demand for its exports ahead of the Christmas shopping season. With its foreign-currency reserves also reported to have passed $1 trillion, the largest amount held by any country, analysts predicted more souring in trade relations between China and America and the European Union. Some wondered whether, with the Democrats in the ascendant, stiff tariffs on Chinese goods would now be back on the agenda in Washington.



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American politics

The incredible shrinking presidency

Nov 9th 2006
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George Bush's presidency seems smaller after the mid-terms; but he can still produce a useful legacy

IT MAY not have been the electoral tsunami some pollsters had been predicting, but it was still pretty impressive. The Republicans' advantages, in the shape of more money and more gerrymandered seats, could not save them from a drubbing at the hands of an opposition with little in the way of new policies and even less likelihood of carrying any of them out.

The Democrats may not be able to govern, but they have suddenly acquired plenty of negative power. Their gain of close to 30 seats in the House of Representatives gives Nancy Pelosi, who will now become America's first woman speaker, comfortable control of the chamber that holds the government's purse-strings. And, although recounts may stalk Virginia for a while, it looks pretty clear that the Democrats will take the Senate as well, and with it the power to ratify treaties and confirm the appointments of judges, ambassadors and other high officials. Overnight, George Bush's stature has been mightily diminished—an impression reinforced by the speedy resignation of his defence secretary, Donald Rumsfeld.

Yet Mr Bush is still president for the next two years, and how he (and the Democrats) handle that time is of huge importance to both America and the world. Humbled though he has been, Mr Bush remains the dominant figure both in domestic politics and abroad. And he has one last opportunity to establish a more useful legacy. The main reason why his presidency seems so small nowadays is that he has meandered so far off track—into the quagmire of Iraq, the corrupt marshes of big-government conservatism and the divisive temples of the theocrats. He now has two years to find the right path.

An elder statesman

The main opportunity lies abroad. Although Mr Bush sounded mildly chastened when he spoke to the nation on November 8th, the day after the election, under America's constitution the conduct of foreign policy and defence lies squarely in the hands of the president, not of Congress. Strangely enough, he may feel somewhat freer than he did. He no longer faces any trial at the ballot box, and is not even intent on securing the presidency for his vice-president. And despite the sneers from Europe, when it comes to diplomacy, he has experience on his side: by next summer, he should be the longest-serving leader in the G7 countries.

Mr Bush has always been something of a gambler. That leaves room for dramatic gestures, from resuscitating the Middle East peace process which he has ignored for too long, to a deal with Iran (or, more dangerously, an attack on it). However, most of the challenges America faces abroad—a nuclear North Korea, an aggressive oil-fired Russia, a rising China—remain as intractable as ever: they do not lend themselves to dramatic shifts in policy, only to more of the same hard slog.

This applies, above all, to Iraq. Anyone expecting an immediate American withdrawal will be disappointed. Mr Bush, so he says, is “committed to victory”. Unless they are planning to cut off funding to troops in the field, an unthinkable option so close to the next presidential election, the Democrats can do nothing about it. On the other hand, the mid-term elections were, in great part, a referendum on his administration's sub-standard performance in Iraq. Replacing the incompetent Mr Rumsfeld was long overdue. Another opportunity to change tactics may come with the recommendations of the Iraq Study Group co-chaired by James Baker, a former secretary of state, and also including Robert Gates, Mr Rumsfeld's replacement.

The constraints on Nancy Pelosi

At home the president looks greatly weakened. He has found it difficult to get bills through Congress, thanks to divisions in his own party: now, he will find it almost impossible. It is hard to foresee any serious attempt to tackle America's largest domestic problem, the rampant growth of spending on “entitlements” such as pensions and health care which, if left unchecked, will bankrupt the government. The cause of free trade has also been set back. The Democrats will probably not renew the president's “fast-track” trade negotiation authority when it expires next year, and may use their majority to pick holes in a number of pending free-trade deals. And bruising battles over tax seems a certainty. Mr Bush wants to get his 2001 tax cuts renewed (they expire in 2010), but the Democrats loathe them as handouts to the rich. Less controversial will be a hike in the minimum wage, unchanged for nearly ten years. The president has already hinted he might agree to that.

There is more scope for cross-party collaboration, if both sides are big enough to take the plunge. One promising area should be immigration reform, where Mr Bush's progress was impeded earlier this year by House Republicans (who have refused all talk of offering citizenship to illegal immigrants) rather than the Democrats (who have courted immigrants' votes). A bipartisan push on energy and the environment is another possibility: American politics is greening at a rapid rate, not just in California, which has led the way in seeking to impose caps on carbon emissions, but even in such oil-addicted places as Texas, where astute businessmen increasingly see the potential of windpower, biofuels and photocells.

Why on earth should the Democrats help a man who has questioned their patriotism repeatedly? In large part by recognising that they didn't win the mid-terms: the Republicans lost them. Iraq, Katrina, Foley—these names and the sleaze and incompetence they denoted turned a fairly conservative electorate against a party that had achieved so little. The Democrats were clever enough to tack to the centre at a time when the Republicans appeared to have lurched to the extreme right. Ms Pelosi, no centrist by inclination, did a good job of holding her troops to a moderate platform. The Democrats picked up many of their seats, particularly in the mountain West and in big states like Pennsylvania and Indiana, by fielding candidates who look like moderate Republicans.

The new Democratic majority must be careful not to throw those gains away by moving back towards the left when the worldly delights of congressional committee chairmanships are theirs. The gains—many of them due only to the ousting of scandal-beset Republicans—could easily be reversed. One important force for moderation will probably be Hillary Clinton, whose journey towards the political centre this week saw her rewarded with a landslide victory in New York.

The Republicans too should look to the centre ground. There are some signs that social conservatism has peaked: a bid to ban abortion failed in South Dakota; a ban on gay marriage failed for the first time in Arizona; and in Ohio the Bible-bashing Ken Blackwell, who aspired to be governor, went down in flames. The main message from the mid-terms for the presidential race in 2008 is that America is weary of polarisation. The prospects of John McCain and Rudy Giuliani, neither of them conventional conservatives, have improved.

Most, however, depends on Mr Bush's willingness to change his ways. A smaller presidency might be a still more defensive, inward-looking one. That would be an understandable reaction to this week's “thumpin'” (as he called it), but wrong. As things stand, Mr Bush will go down in history as a president who promised much but achieved little. He has two years to change posterity's mind.

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Iraq

Judging Saddam Hussein

Nov 9th 2006
From The Economist print edition

Justice may have been done, but it is a mistake to hang him

AP

Get article background

AS WITH every aspect of the war in Iraq, the world's reaction to the death penalty handed down last weekend on Saddam Hussein has been utterly polarised. One view holds that this was “victors' justice” imposed by an illegitimate tribunal after a show trial. Another holds that it was an uplifting example of a mass murderer being held to account. George Bush called it a landmark in Iraq's transition to democracy. Sadly for those who prefer blacks and whites, the truth in this case hovers somewhere between the two extremes. Although the trial had serious defects, it was not a show trial—at least not in the sense its critics say it was. But nor is it likely to help Iraq bind its wounds (see article).

Finding the right way to put dictators and war criminals on trial is never easy. In one sense, these are always show trials—and rightly so. The aim is not only to make an individual pay for his crimes but also to demonstrate something bigger. America hoped that the Nuremberg trials would demonstrate the abhorrence in which the world held the Nazi system, and bring home to the German people America's determination to extirpate that system forever. When Slobodan Milosevic was put on trial for war crimes at a special tribunal at The Hague, one motive was to show that heads of state could not shelter behind claims of impunity. The purpose of the special tribunal investigating the Rwanda genocide is not only to bring the guilty to justice but also to bring reconciliation to a society that was split asunder.

In the case of Mr Hussein it would have been a mistake to follow the Nuremberg model: putting the occupiers in charge would simply have made more Iraqis feel that they had been conquered by foreigners, not liberated from a tyranny. The International Criminal Court established in The Hague in July 2002 was not an option, since it cannot try crimes committed before its inception. There was, besides, a good argument for holding the trial inside Iraq itself, where the crimes took place and where victims and their relatives could more easily follow its progress in a language they understood. But did Iraqi judges have the experience to deliver a fair and impartial process? Doubting that they would, this newspaper advocated a hybrid tribunal, like the one set up in Sierra Leone, that would include foreign judges and operate under international law.

The Americans decided otherwise. The Iraqi Special Tribunal had only Iraqi judges, though they had access to international advisers and the court's rules were modelled on those used in UN tribunals. Its performance has been mixed. Defence lawyers have been killed, and one judge resigned complaining of political pressure. But in spite of this, and in between the harangues, walkouts and moments of farce, a

careful legal case, including documentary evidence and the testimony of witnesses, has laid out Mr Hussein's responsibility for the torture and murder of 148 people from the town of Dujail more than two decades ago. In short, it has been neither a perfect trial nor a show trial of the sort in which charges are trumped up, evidence fabricated, the verdict pre-ordained or the defendant denied a chance to answer his accusers.

So what now?

Many legal and human-rights lobbyists in the West say that the imperfections of the Dujail trial have been so serious that the verdict should be set aside and Mr Hussein should be tried again in an independent international tribunal whose proceedings would be beyond reproach. This newspaper thinks the verdict should stand, but the punishment should not. That is chiefly because capital punishment is wrong in itself, even for monsters like Mr Hussein. Showing greater respect for human life than he ever did would have represented a rare moral victory for Iraq's occupiers. Keeping Mr Hussein alive would also allow other trials detailing far greater evils than Dujail to be completed—such as the one, already begun, in which he stands accused of instigating the so-called Anfal campaign against Iraq's Kurds, in which more than 100,000 people may have been killed and millions uprooted.

Several European governments have also argued against hanging Mr Hussein. Given the violent realities of Iraq, however, outsiders are deluding themselves if they expect scruples such as these to have much impact in Baghdad. Nor would a retrial in a more perfect tribunal do much to alter the way most Iraqis see this business. Most Shias and many Kurds seem to welcome the verdict: they do not care a jot about the technical defects of the trial. As for the Sunnis who were loyal to the previous regime, it is the legitimacy of the present government, not the probity of the court, that is fundamentally in question. When a country in a civil war tries a man who is regarded by one side as a symbol of its cause this will not bring reconciliation, even if it meets the demands of justice.

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The United States and Nicaragua

Dealing with Daniel

Nov 9th 2006
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The lesson for outsiders: stay cool and support democracy

AFP

Get article background

IT MAY be a small, dirt-poor tropical country but Ronald Reagan once saw Nicaragua as a potentially "mortal threat" to the United States. The Sandinista revolution, led by Daniel Ortega, was, the American president said portentously, just "two days' driving time from Harlingen, Texas." So Reagan financed and equipped the *contra* guerrillas with the aim of toppling Mr Ortega and his fellow revolutionaries.

The cold war is long over but some American officials seem not to have noticed. For them, Mr Ortega is not just a bad memory but also, it would appear, a new threat. He is a friend of Venezuela's Hugo Chávez as well as of Cuba's Fidel Castro. Sundry Americans, from the ambassador in Managua to the secretary of commerce, warned Nicaraguans of dire consequences if they chose him as their president. Even Oliver North, Mr Reagan's chief *contra* warrior, dropped in to campaign against his old nemesis.

Predictably, this effort backfired. One of the lessons from this year's elections in Latin America is that the region's voters, like those elsewhere, dislike being told what to do by outsiders. Having been rebuffed when he backed candidates in Peru, Mexico and Ecuador, Mr Chávez kept quiet about Nicaragua. The Americans did not. Mr Ortega duly won 38% of the vote, enough to give him victory over a divided opposition that included both conservatives and the centre-left (see article).

So what? In the 1980s the most powerful Sandinista leaders were Marxists who worked with Cuba to supply weapons to guerrillas in neighbouring El Salvador. Rightly or wrongly, the Reagan administration believed that the whole Central American isthmus was about to go communist (it overlooked the fact that American support for right-wing dictators had blocked the path of peaceful change).

Fortunately, Central America has moved on. Where there was war and dictatorship there is democracy—but poverty and insecurity too. Enlightened government of the left, combining market economics with effective social policy, would not be a bad thing. Can Mr Ortega provide it? He has abandoned economic collectivism and says he will support private investment and, with reservations, a trade agreement with the United States. The problem is not Mr Ortega's principles but his lack of them. To regain power, the former socialist has turned into a cynical political boss, chummy with corrupt reactionaries. He runs the Sandinista party as a private fief.

For the United States, Central America is a near neighbour, a source of migrants, a transit corridor for drugs and a not insignificant trading partner. But, as some of its officials recognise, the real interest of the United States lies in supporting democracy in the region. Sometimes, that means working with people you dislike. The only thing that should matter to outsiders is that Nicaragua remain a democracy, and that Mr Ortega, presuming he governs poorly, surrender power peacefully in five years' time.

Chávez's meagre haul

As for Mr Chávez, he has gained another ally in the region. But Mr Ortega's election is not part of any underlying shift to the left: he gained a smaller share of the vote than in 2001, but won because he secured a change in the rules lowering the threshold to avoid a run-off (which he would have lost). And Mr Chávez's haul of allies from Latin America's electoral marathon has been meagre: just Bolivia and Nicaragua. The lesson for the United States is that when democracies throw up uncomfortable leaders, such as Mr Chávez himself, it pays to stay cool. Most Latin Americans have tired of Mr Chávez; sooner or later Venezuelans will too.

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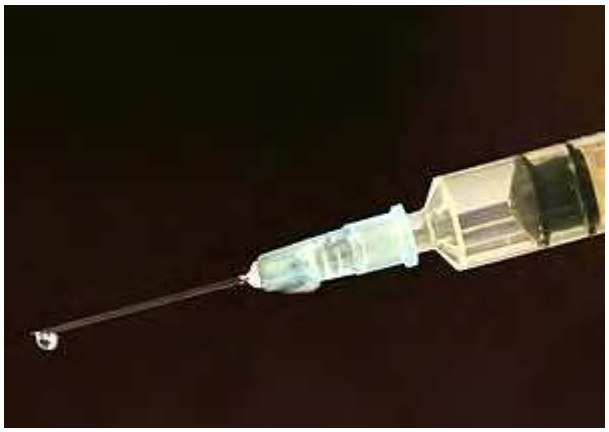
Global health

Less Mary Poppins

Nov 9th 2006
From The Economist print edition

The World Health Organisation needs to help sick people, not be a nanny

Reuters



DOES Margaret Chan deserve congratulations or sympathy? She has just been elected director-general of the World Health Organisation (WHO), which has helped eradicate smallpox and other deadly diseases. The United Nations agency organised this week's special election after the death of Lee Jong-wook, its previous boss, in May. Before raising a glass to the new global health supremo, though, consider that she may have a poisoned chalice.

Even by the standards of UN agencies, the WHO is weak. Though the world looks to it for leadership when health crises strike, it has little legal authority and so must cajole governments into action. The director-general's post is undermined by an unwieldy structure that gives too much power to six elected regional heads. The agency also has to compete with better-funded or nimbler rivals, ranging from the World Bank and bilateral donors to innovative newcomers such as the Gates Foundation and the Global Fund to Fight AIDS, Tuberculosis and Malaria.

Why not simply scrap the agency altogether? Alas, the world still needs the WHO. Market forces alone will not tackle lethal afflictions of the poor world such as visceral leishmaniasis and Chagas disease, so there is a case for intervention. The agency provides useful advice and sets technical standards for countries too poor to have proper medical regulators like America's Food and Drug Administration. And there are global public goods that only a transnational body can provide. Pandemic diseases such as avian flu do not carry passports; only concerted global action can tackle them successfully. However, the agency must do much better if it is to fulfil its proper role as a vigilant watchman of global health.

Creep back

The WHO suffers from a disease common in far too many worthy organisations nowadays: mission creep. Dr Chan must cure the agency's addiction to noisy campaigns against obesity, smoking and other non-infectious ailments. It tries to justify its activism in these areas by arguing that, as developing countries grow wealthier, the economic and health cost extracted by “lifestyle” diseases is soaring. That is true, but nannying by the WHO is unlikely to do much good and diverts resources from other tasks. Many of these afflictions arise from personal choice, and are not contagious. That weakens the case for multilateral intervention. National governments are anyway more in step with local customs and conditions.

Just as human-rights groups get into a muddle when they broaden their focus from torture victims to losers from globalisation, the Mary Poppinsisation of the WHO has meant it has neglected some of its core duties. One is publishing national health data. This should allow cross-country measurements of success and failure. The snag is that the information provided by national health ministries is often incomplete or politically fudged—and too often the WHO swallows this. The new boss cannot legally require that, say, India or South Africa reveal the true number of HIV cases in their countries, but she could shame them into action by rejecting bogus figures.

Another essential task of the WHO is to act as the early-warning system for pandemics. Here the main problem is secretive governments. China hid information on the early outbreak of SARS, as did Thailand with avian flu. The reason for secrecy is understandable—officials did not want to harm exports or kill tourism—but indefensible. As Hong Kong's health director during the SARS crisis, Dr Chan herself suffered from Beijing's secrecy; she should use her bully pulpit to force governments to share data on such infectious diseases promptly. Technology can help. Google's charity arm is developing “web crawler” technology to monitor news reports in dozens of languages to spot emerging pandemics. An early version is credited with identifying the SARS outbreak months before the Chinese government came clean about the problem.

There are two themes to this: focus and transparency. Forget all the guff about persuading fat westerners to eat less; spend more time trying to deal with infectious diseases in the developing world. And stand up to secretive governments. After all, sunlight is the best disinfectant.

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About sponsorship

European aerospace

Set Airbus free to soar

Nov 9th 2006
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Time for governments to back off and let Europe's champion go global

Reuters

IT WAS never meant to be like this. Airbus, Europe's rival to Boeing as a commercial aircraft-maker, was supposed to become the very model of hard-headed business decision-taking. Instead, Europe's best example of industrial co-operation is mired in political infighting.

Just over six years ago Airbus Industrie was transformed from a marketing consortium for a group of European aircraft-makers into an integrated company. The switch was supposed to herald a more commercial approach, with committee decisions giving way to managerial clarity and a new focus on the bottom line. Factories that made the fuselage, wings and other parts were transferred from the consortium members into the new Airbus company, itself owned 80% by European Aeronautic Defence and Space (EADS) and 20% by a British company, BAE Systems. The latter sold out earlier this year; but EADS has become unstable as its core German and French shareholders have started selling down their stakes, while their governments hover as buyers, anxious to retain influence and protect jobs (see article).

So, instead of bringing a more businesslike approach, Airbus seems to be going backwards. In the past year the company has hit two problems: a two-year delay to its flagship A380 super-jumbo programme and a profit squeeze caused by the strength of the euro against the dollar, in which aircraft are priced. A cumbersome twin-headed structure that gave EADS German and French co-chairmen and co-chief executives has been complicated by the desire of Airbus bosses in Toulouse to go their own way. Three chief executives have had to leave EADS and Airbus. This week Fedex became the first customer to cancel A380 orders, while Airbus revealed emergency plans to cut its suppliers from 3,000 to 500; and EADS reported a net loss in the third quarter of €195m ($250m).

It is not only Airbus employees and European governments that are anxiously contemplating the woes of Airbus, particularly in the wide-bodied market where Boeing's long-haul 777 and its new 787 are cleaning up. The world's airlines and their passengers have been the big winners out of the arrival of Airbus to challenge Boeing. Airbus's advance in the late 1990s forced the American manufacturer to up its game. Boeing has had to redesign its cabins and improve the fuel-efficiency of its aircraft—and is doing rather well as a result.

The curse of economic nationalism

The best argument for the early subsidies that Europe's governments poured into the infant Airbus was that they prevented the emergence of an American monopoly. Taxpayers' money bought Europe an edge in a high-tech sector that sustained hundreds of thousands of well-paid jobs. And the money was not poured down the drain. Launch aid for the best-selling A320 has been repaid many times over by a share of sales revenue that keeps flowing into European exchequers. If the EADS board were to decide that it could not afford to proceed with launching the Airbus A350 wide-body jet, the Europeans would be retreating from the biggest part of the long-haul market, leaving it to the Americans.

The tragedy of Airbus is that a co-operative enterprise that promised to surmount economic nationalism is now being gradually killed by a dose of that very European disease. As the French Lagardère group started selling its EADS shares, a government-owned bank stepped in to buy part of it—purely, it seems, so that France would retain a bigger share than the Germans. The German government is no smarter, just less blatant: it has been twisting arms at Commerzbank and Deutsche Bank to do their patriotic duty and step in, at least for a while. And the Spanish government is eager to double its 5% share in EADS, in the hope of landing more Airbus manufacturing jobs. This smacks of back-door renationalisation of Airbus, exactly the opposite of the process that was supposed to have begun with the creation of EADS six years ago.

There is a better solution. Faced with the huge costs of launching new aircraft, Airbus needs two things: more commercial partners to share the risk; and the chance to outsource production to low-cost countries. Boeing has already gone down this route, and Airbus's intention to assemble A320s in China is a promising start. But bringing new partners into Airbus and sending more work outside Europe will always be difficult as long as governments hold stakes in its parent firm.

There is no compelling reason why Airbus should be yoked to EADS, a weak defence company subject to government meddling. Lofty talk of synergies is overstated. A civil aircraft business needs to be free to focus on airlines, which are very different customers from governments. EADS should sell Airbus, and return the money to shareholders. If the French government really wants to support aerospace jobs, it can do so by providing cheap land, research grants and the like. Xenophobic fiddling with the share register helps nobody.

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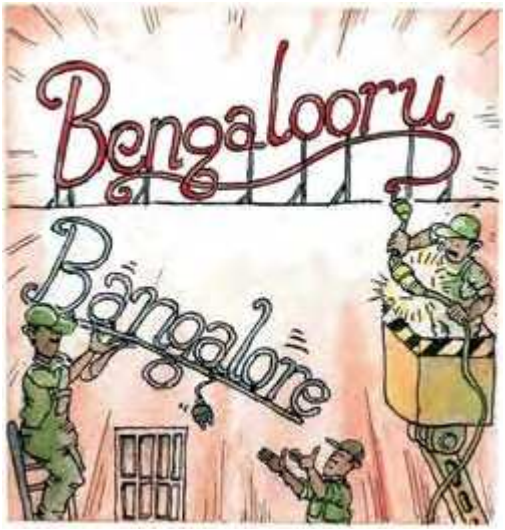
Place names

Goodbye, Bangalore

Nov 9th 2006
From The Economist print edition

The pain of parting with the familiar



WELCOME to Bengalooru, garden city of India, capital of Karnataka state; city of exotic temples, of Haider Ali and his son, the "Tiger of Mysore"; city of software, technology parks, cyber cafés and globalisation at its most glamorous; city, above all, of cooked beans. And, at the same time, goodbye Bangalore, boring colonial cantonment whose name failed to honour the kind old woman who plumped up a hungry 14th-century king with a small bean feast. Following the examples of Bombay, Madras and Calcutta, Bangalore has rebranded itself, taking the local name for "city of cooked beans".

Will it catch on? Yes, in the end it probably will, just as Mumbai, Chennai and Kolkata are slowly taking hold. Sign-writers and printers will be glad of the new business, politicians will claim a blow against British cultural enslavement and a victory for authenticity (though that story about the old woman and the king may be tosh), but many others will give a weary sigh. So many places change their names, and so often.

They have every right to do so, of course, and it seems discourteous not to use their new names if they expressly ask you to. That is why *The Economist* adopts Myanmar, Côte d'Ivoire, Kyrgyzstan, Timor-Leste and now Bengalooru (see article) too. But it rankles, for several reasons.

First, the changes, which are nearly always politically inspired, often seem to annoy the locals as much as anyone else. Many Indians, surprised to be told their place names were inappropriate, still talk about Bombay and Calcutta as though nothing had changed. The people of St Petersburg have had to endure first Petrograd and then Leningrad before reclaiming their city's pre-1914 name. The Congolese were startled one day to be told that their country, its main river and the currency would all be called Zaire. After 26 years they got their old name back. Something similar happened in Cambodia, when the ghastly Khmers Rouges imposed Kampuchea.

Some of these new names do not seem very authentic, or even very new: Côte d'Ivoire is just the French for Ivory Coast and Timor-Leste the Portuguese for East Timor. Beijing is merely a rendering of the Mandarin pronunciation of Peking, just as Guangzhou is the Mandarin for Canton, though it might be more correct, if localism is all, to call it by its Cantonese name. Kamptee, a town in central India that some root-seekers call by its "aboriginal" name Kamthi, is actually named after Camp T, set up by the East India Company. Zaire was not an African name but a Portuguese corruption of one.

Still, some changes have logic on their side—Lake Nyasa, which to the locals meant Lake Lake, is more sensibly now called Lake Malawi—and others have long since ceased to jar. To insist on calling Thailand Siam, Sri Lanka Ceylon or Zambia Northern Rhodesia would be eccentric. This is another argument for using the names that governments request, even if those governments are not democratic. America resists Myanmar, which has not been approved "by any sitting legislature in Burma", but is apparently untroubled by Beijing or Belarus.

The whiff of outsaucing

Yet many languages have their own words for foreign places, words resonant with associations of travel, history or romance. It seems a pity to lose them. Wasn't Sir John Moore buried after Corunna, not A (or La) Coruña? Weren't Rose Macaulay's towers in Trebizond, not Trabzon? Should the Lady with the Lamp really have been christened Firenze Nightingale? Was Chamberlain shamed at München? After eating chicken *à la Kyiv*? And even if you pronounce it My-yorker, isn't the island Majorca, not Mallorca?

Only English-speakers, it seems, are expected to kowtow to name-changers' whims. No one berates the French for Pékin, Le Caire and Edimbourg, the Italians for Ucraina, Città del Messico and Pechino, or the Germans for Kapstadt, Singapur and Temeschburg. Dear Name-Changer, feel free to adopt any moniker you fancy, but do not hector others if they jib. A city of beans by any other name will smell as sweet, or beany.

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On China's economy, the meaning of Africa, Iraq, New York, cheesesteaks

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No reserves about spending

SIR – It is correct that "the only real solution to the poor return on China's reserves is to stop accumulating them" ("Who wants to be a trillionaire?", October 28th). But you pose this option as an alternative to using the reserves to "relieve rural poverty, improve health care or inject money into the under-funded pension system", when in fact the two strategies should be pursued simultaneously.

China should revalue its currency substantially, mainly to reduce its huge and growing current-account surplus that is destabilising China's (and the world's) economy, but also to halt the wasteful build-up of reserves. At the same time it should sharply expand government spending on the programmes you identify. This would boost domestic demand to offset the intended decline in the external surplus, thus minimising or even avoiding any negative impact on overall growth, as well as tackling widespread social needs and reducing political criticism of the Chinese government. By enhancing citizens' confidence in the official safety-net, such a programme would also reduce the precautionary demand for private saving and reinforce the needed adjustment in China's international imbalances.

Fred Bergsten
Director, Peterson Institute for International Economics
Washington, DC

SIR – Your argument that Asia would be only slightly affected by a slowdown in the American economy is unconvincing ("America drops, Asia shops", October 21st). The arithmetic contribution of net exports to Asia's growth may have been only one percentage point, or two points in the case of China, but including multiplier effects the total growth impact has been two to three times higher.

For Asia to sustain high growth in the face of an American slowdown two things need to happen. First, the exchange rates of China, Japan and other Asian countries need to appreciate to correct the absurd misalignment of currencies that has been allowed to prevail in recent years. This appreciation would help boost the buying power of Asian consumers and stimulate general consumption, including the expansion of services that will need to replace exports as the biggest sector to create employment. And second, after the accumulation of massive foreign-exchange reserves in recent years, these countries need to run down their external surpluses. They can do this by opening up their trade and, in some cases, employing temporary fiscal stimuli.

Flemming Larsen
La Cadière d'Azur, France

Language lesson

SIR – Your leader on the relationship between Africa and China stated that the "characters for 'Africa' in the Mandarin language mean 'wrong continent'" ("Wrong model, right continent", October 28th). This is incorrect. The written language is Chinese; Mandarin and other names refer to its widespread standard pronunciation. Moreover, the Chinese term for Africa is *Feizhou*. Although *Fei* does have a primary meaning of "not" or "wrong" no Chinese reader would think of it as more than a phonetic element, any more than they would think of England, *Yingguo*, as the "brave country" or America, *Meiguo*, as the "beautiful country".

John Wills
Professor emeritus of Chinese history
University of Southern California, Los Angeles

War again

SIR – Your leader on the American commitment to Iraq stated that the United States launched the war "primarily to secure its own interests" ("Cut and run?", October 28th). This sounds dangerously like the argument that the conflict is a neo-colonialist grab for Iraq's oil; a suggestion you have rightly dismissed as nonsense. Although you accepted the evidence, now known to be wrong, that Saddam Hussein possessed WMD, surely *The Economist* also endorsed the war on the ground that it was in the world's interest to punish a brutal dictator for his outright defiance of the UN.

We are in a mess in Iraq because we underestimated the difficulties of reconstruction after Saddam's fall. However, at least leave those of us who made the mistake of supporting the war with the consolation of continuing to believe in the noble motives that got us there in the first place.

Laurence Leigh
Beirut

SIR – Another option is to set a deadline for America's departure from Iraq of, say, one year to 18 months from now. This would put pressure on the more reasonable elements in the Iraqi government and its Sunni and Shia communities, as well as on other countries in the region, to try to control sectarian violence and press for compromise. A deadline would also deprive those who claim to be concerned that America plans to stay in Iraq permanently of a motive and a recruitment tool.

Richard Greene
Hopewell, New Jersey

SIR – America's voters should not punish the people of Iraq, you say. Too late! They started doing so long ago.

Brett Evill
Kempsey, Australia

SIR – You cannot bring yourself to admit that you showed an elementary lack of judgment and foresight in supporting the invasion of Iraq. Like a first world war general you compound it by thinking that consigning yet more troops' lives will solve the problem. When you've dug yourself into a hole the best course is to stop digging and get out.

Michael St. Clair-George
Antwerp, Belgium

Homes fit to live in

SIR – When I moved into New York's Stuyvesant Town residential estate in 1967 it was a red-brick housing project sitting astride gritty 14th Street and the shabby tenements of the Lower East Side ("A big deal", October 21st). Twenty minutes from a major subway hub, in a marginal neighbourhood lacking trendy restaurants and cinemas, it was a modest place to live at a modest rent. Nevertheless, as a divorced parent I was grateful to live here. I was able to raise my children and serve the city for 30 years as a teacher and then principal in public high schools. New York's "notorious rent-control laws", to which you refer, actually help middle-income New Yorkers—its teachers, policemen, firemen and civil servants. The market rate for renting in Manhattan is astronomical and removing affordable housing removes middle-class people from the city.

Sylvia Rabiner
New York

Much more than a sandwich

SIR – Since you've highlighted the tribal etiquette surrounding Philadelphia's most famous culinary

delight, not to mention its contribution to high blood-pressure rates, there are a few clarifications to the ordering procedure I feel your readers should be made aware of in case of a future visitation ("Whiz wit?", October 28th). The hierarchy of ordering a cheesesteak (note it is one word, never two) is meat, cheese, onions. Meat is silent, unless it isn't steak (ie, chicken). Cheese is assumed to be Cheez Whiz, unless otherwise specifically identified. And onions can be "wit" or "witout", as you say. They can, however, also be occasionally ordered as "light".

Ron Giordano
Wenonah, New Jersey

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America's mid-term elections

Putting his presidency together again

Nov 9th 2006 | WASHINGTON, DC
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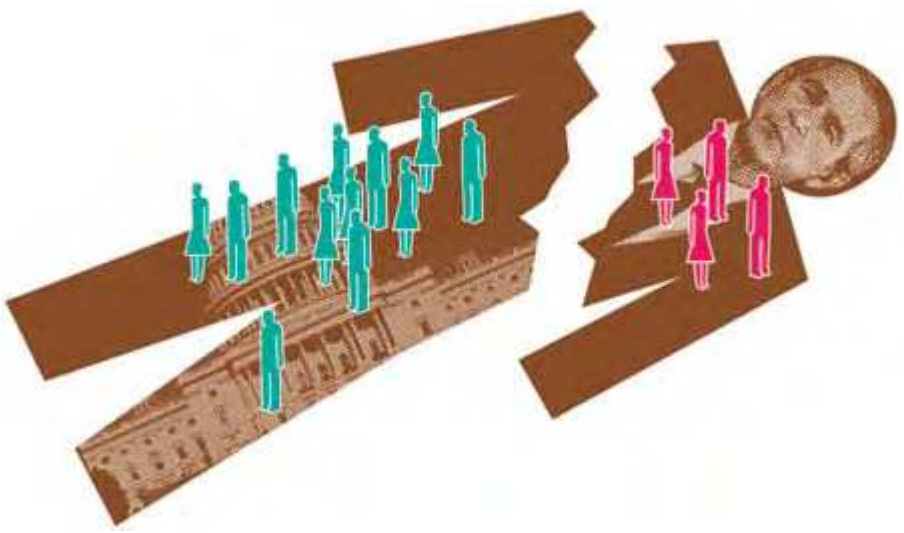


The Democratic Party's takeover of Congress will make George Bush's life more difficult. But it also gives him a chance to reinvent himself

GEORGE BUSH'S last two years in office were never going to be much fun. His domestic agenda has run into the sand. (When was the last time the White House talked about the “ownership society”?) Public attention is inexorably shifting to the 2008 presidential race. And hanging over everything is a huge black cloud: the fact that Mr Bush is losing a war of his own making in Iraq.

The Republican Party's loss of control of the House and, in all probability, the Senate makes that bad situation worse. Last month George Bush senior said that he “would hate to think what...my son's life would be like” if the Democrats take over Congress. For the past six years, through good times and bad, Mr Bush has been able to rely on two things: a solid Republican majority in the House and equally solid backing from the party faithful round the country. In January 2006 Mr Bush still enjoyed an almost 90% approval rating among Republicans, compared with around 10% among Democrats. No longer.

The House will spend the next two years in investigative overdrive. The inquiries will focus on Iraq. Why was the pre-war intelligence faulty? Why did the administration fail to plan better for the occupation? But they will deal with more than this. Why hasn't the administration implemented the 9/11 Commission's recommendations for improving the intelligence agencies? Why did it fail to cope with Hurricane Katrina? The congressional watchdogs will even unearth that old chestnut—the decision to put Dick Cheney, the vice-president, in charge of a task-force on energy that advocated all-out drilling.

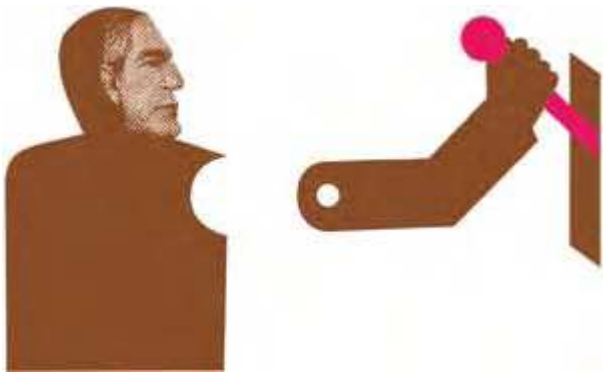
Since Mr Bush and his team have always regarded Congress as something of a constitutional nuisance, they will do their best to frustrate this expanded oversight. The result will be a bitter struggle between a resurgent Congress and a determined executive, which will leave the administration hopelessly distracted.

The airwaves may well become cluttered with the administration's dirty laundry. Democratic committee chairmen are masters of the dark arts of congressional inquiries. They will not only force the administration to admit to its sins of omission and commission; they will also play the media like maestros, making sure that every story lasts from the first leak to the *New York Times* through to the

talk shows on Sunday.

This will inevitably deepen the gloom over Iraq. Investigators will give administration officials the grilling of their lives. They will also allow active soldiers a chance to speak out. Democratic investigators will have an important resource on their side—veterans of Iraq who can ask highly detailed questions about the conduct of the war. As a result, the news will be dominated by two sets of stories—the first about the continuing unrest in Iraq, and the second about the bad decisions that produced the disaster.

The Republicans' humiliation is also likely to produce a revolt within the party. Mr Bush has already seen many Republicans abandoning him during the campaign (Charlie Crist, the successful Republican candidate for governor of Florida, pointedly failed to turn up to a Bush rally in his state). Now they will distance themselves from him in the business of running the country. The Republicans did not get clobbered merely in blue-state America. They lost in red strongholds—three seats in Indiana and one in Kentucky, for example—an ominous sign of Republican meltdown if things do not change. The defeat will embolden longstanding critics of the conduct of the war in the Senate, such as John Warner and John McCain. But it will also produce a new breed of critics—House Republicans who have held their tongues so far for fear of disturbing party unity in the run-up to the election. Now plenty of congressional delegations will be going to the White House to demand an explanation of what is going on and what the president is planning to do about it.



This revolt will be part of a wider rebellion among America's conservatives—a movement that once embraced Mr Bush as Reagan's heir, but is now discovering that he is his milquetoast father all over again. A small army of conservative bigwigs have spent the past few months excoriating Mr Bush's version of Republicanism. Dick Armey, a former Texas congressman and House majority leader, has been everywhere chiding his party for forgetting its principles and falling in love with power for power's sake. Richard Viguerie, a veteran conservative activist, says that “I've never seen conservatives so downright fed up as they are today”.

Neoconservative repentance

The *volte face* is particularly dramatic among neoconservatives. Mr Bush has long faced criticism for his Iraq policy from more traditional conservatives, such as George Will and William Buckley. But now even the Dr Frankensteins of this world are turning against their own creation. A forthcoming issue of *Vanity Fair* includes a series of interviews with leading neoconservatives about the Iraq war. Some of the most damning comments were conveniently released a few days before the election.

Richard Perle, a former head of the Defence Policy Board (DPB), says that a “total defeat” in Iraq—an American withdrawal, leaving a failed state—is becoming more likely, though it is not yet inevitable. He blames Mr Bush and his dysfunctional administration, and says that, if he could have his time over again, he would not have supported the war. Eliot Cohen, a member of the DPB, says that America could end up “drifting” to “some sort of withdrawal on some sort of timetable”. Kenneth Adelman, who predicted that the Iraq war would be a cakewalk, blames the difficulties there on one of the “most incompetent” national security teams of the post-war era. Many of the people quoted in the article have said that they were misrepresented. But the neoconservatives are certainly not going around Washington saying that the war is a triumph.

Mr Bush has moved swiftly to try to adjust to this more hostile world. In a subdued and rueful press conference on November 8th he acknowledged that he and his party had received a “thumpin'” from the electorate. He also began the hard job of reinventing himself as a bipartisan president. He talked about

“changing the tone” in Washington and launching a “new era of co-operation”. He repeatedly said that he wanted to find “common ground” with the Democrats so that they could tackle the big problems facing the country. He mentioned a number of subjects on which he thought that they could work together, from education reform to energy independence to immigration reform. He also sent a strong signal that he understood the depth of popular feeling about the Iraq war by announcing that he will replace his defence secretary, Donald Rumsfeld, a man who has become a symbol of everything that has gone wrong in Iraq, with Robert Gates, a relatively straight-shooting former head of the CIA.

What does all this portend? The shift in control of Congress will not necessarily mean a dramatic change in foreign policy. The constitution gives the White House, rather than Congress, responsibility for dealing with abroad. And this is a prerogative Mr Bush will fight to protect with every bone in his body—partly because he believes in the importance of presidential powers, and partly because he knows that foreign-policy decisions cannot be haggled over in the way that budgets can. The National Security Strategy, with its emphasis on promoting freedom and trying to avoid the hazard of failed states, will continue to be the most reliable guide to American foreign policy, congressional *Stürm und Drang* notwithstanding.

Congress has the constitutional power to stop funding the war—as it did in the case of Vietnam in 1974. But the Democrats are not so stupid as to pull that lever. They may use the power of the purse to squeeze spending at the margins; but cutting off the money completely would create a huge popular backlash. It would also transform Iraq from Mr Bush's problem to theirs. The Democrats are well aware that they themselves are hugely divided on the subject. And the fact is that the only person who can change the direction of American foreign policy is Mr Bush himself.

The president will continue to put the war on terror at the heart of his foreign policy. He firmly believes that the attacks of September 11th 2001 ushered in a new world. He equally firmly believes that terrorists are still planning to strike the United States. The mid-term elections were not a repudiation of the war on terror, but of the conduct of the Iraq war, which the majority of Americans now regard as a horrible distraction.

What won't change

Mr Bush's stubbornness over Iraq is not just a matter of pig-headedness or self-delusion. He cannot change tack without repudiating the most important decision of his presidency—making Iraq the central front in the war on terrorism. And winding down America's presence in Iraq might turn the country into an Iranian satrapy and a refuge for terrorists.

But Mr Bush will nevertheless be under intense pressure to do more than accept one resignation. He said that one reason he appointed Mr Gates was that he brings a “fresh perspective” to the war. He also signalled that he has high hopes of the Iraq Study Group report—being prepared by James Baker, secretary of state under George Bush senior, and Lee Hamilton, vice-chairman of the 9/11 Commission.

Anyone who calculates that the arrival of a Democratic majority in the House rules out military action beyond Iraq in the next two years could be in for a shock. The White House still has the freedom to use force against any unexpected challenge to the status quo. And anyone who calculates that it signals a weakening of America's support for Israel will also be disappointed. The Democratic Party is almost as pro-Israel as the Republican Party. America will not only stand by Israel if it takes action against Hizbullah and Hamas. It will also take punitive measures against Iran if it becomes too involved with these terrorist groups.

But Mr Bush will certainly think twice before reaching for his gun. The days when Mr Perle could sum up America's foreign policy in the simple phrase, “Who's next?” have long gone. Foreign policy has been moving in a more multilateral direction for some time, certainly since the 2004 election. America is trying to deal with the twin problems of Iran and North Korea through multilateral institutions. Even the few remaining members of the “regime-change fraternity” in the administration recognise that military action against Iran or North Korea would be full of risk.

A chance for reinvention

The Democrats' victory will have a more direct impact on Mr Bush's domestic agenda. Here the Democrats have much more power to initiate policy. And Nancy Pelosi, the incoming Democratic speaker,

has produced some politically savvy ideas that they can all agree on—including an increase in the minimum wage and more use of the government's power to negotiate better deals from drug companies.

In dealing with her, Mr Bush will have to shift from playing offence to playing defence. He will find it impossible to push for tax cuts for the rich and more conservative judges. He will have to choose which bits of the Democratic agenda to accept and which to veto—thus returning to the traditional role of a Republican president, of trying to block ambitious Democratic spending bills. And he will also have to fight a rearguard action to preserve some of the achievements of his first term. The Democrats are hell-bent on grinding down the No Child Left Behind Act, a bill reinforcing teacher accountability and giving schools more flexibility, which has to be reauthorised next year. They may also deprive him of fast-track authority to negotiate trade deals—though he was never certain to get that anyway—and will thus put his bilateral trade agenda in doubt.

This could make for a pretty dismal last two years: dealing with hostile and over-mighty committee chairmen, trying to charm disgruntled Republicans and refighting yesterday's legislative battles. Can Mr Bush do anything to deliver on the promises of bipartisanship that he made on November 8th?

The notion of the president as a centrist reformer may look fairly unlikely. He has thrived on the politics of division, supercharging his base and marginalising the Democrats. (And, for her part, Ms Pelosi has called him “incompetent”, “an emperor with no clothes” and “dangerous”.) But that is not the whole story. Mr Bush is not running for elective office again—and besides, the take-no-prisoners style of politics that Karl Rove, his chief adviser, perfected has proved a failure this time around. He is not immune to the legacy-fixation that affects presidents in their last years of power. He is heavily influenced by the example of Reagan, who worked successfully with a Democratic Congress in his last two years in office. Mr Bush has a history of working with the opposition; he was a centrist governor of Texas. And he has already mentioned his hopes of setting up a bipartisan commission on entitlement reform. His press conference on Wednesday was full of conciliation that bordered on contrition.

Voters sent a strong message that they want to see an end to bickering in Washington, and a genuine attempt by both branches of government to get along together and solve big problems. And there is no reason to think that gridlock rules that out. Gridlocked presidencies have, in fact, produced some of the best legislation of recent decades, such as Reagan's 1986 tax reforms and Bill Clinton's welfare reforms a decade later.

The president also has a perfect issue on which to try to reinvent himself as a reformer with results: immigration. He has embraced a solution to America's immigration mess that is both centrist and sensible. This involves strengthening the border and penalising employers who employ illegals. But it also involves creating a path to citizenship—allowing illegal immigrants to come out of the shadows and employers, particularly in agriculture and the hotel industry, to solve their labour problems.

The biggest obstacle to this reform have been the Republican troglodytes in the House who want to build a fence and send America's 12m illegal immigrants back whence they came. The Democrats are, for the most part, much more sensible on this issue—and Ted Kennedy has co-sponsored a bill with John McCain which gives the president much of what he wants. Now Mr Bush has a chance to link arms with the Kennedy wing of the Democratic Party, a deal made all the likelier by the fact that the Democrats made big advances in these elections among Hispanics. Such bipartisanship will do something to burnish his reputation as a reformer. It will also earn the plaudits of business Republicans who are desperate for a pragmatic solution to the immigration problem.

Mr Bush may even be able to extend this fashion for bipartisanship to foreign leaders. Mr Bush's earlier electoral successes were not necessarily good for America's foreign policy—they encouraged him to play to his base at home at the expense of cultivating friendships abroad. This week's humiliation for the Republican Party may have the opposite effect. Mr Bush may realise that, since he no longer has to fight any more elections at home, there is capital to be gained from being nice to foreigners. And foreign leaders may realise that a weakened and distracted America is even more of a problem than an overmighty one.

No safety in weakness

In the days of the cold war a weakened president might have emboldened other big powers to flex their muscles. These days the calculations are different. All the major powers, India and China included, have an incentive to clamp down on global terrorism and the proliferation of weapons of mass destruction—

partly for reasons of self-preservation, partly for reasons of trade. The fact that the Proliferation Security Initiative brings together more than 70 governments in efforts to disrupt suspicious shipments of weapons and technology is an indication of how widely these concerns are shared.

The anti-Bush camp in Europe is not as strong as it once was. Jacques Chirac is on his way out. Gerhard Schröder has been replaced by the much more Atlanticist Angela Merkel. And even China and Russia are less awkward than before. Both have backed America over Iran. And China has supported the two most recent United Nations resolutions on North Korea.

Though the Democrats have dealt him a mighty blow, the biggest problems that face Mr Bush today are exactly the same as they were last week: Iran's growing ambitions, Kim Jong Il's unpredictable dictatorship and, above all, the ongoing disaster in Iraq. Mr Bush's allies abroad may be forgiven for taking some pleasure in his humiliation. But they have a strong interest in making sure that American power is not too diluted. The radical Islamists and rogue states who wish America harm are no more benevolent when it comes to the rest of the civilised world.

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The mid-terms

House-cleaning

Nov 9th 2006 | WASHINGTON, DC
From The Economist print edition

Getty Images

George Bush's Republicans have been deservedly spanked by Nancy Pelosi's Democrats. A series of articles explain the who, the why and the what next

VOTERS in Marcus Hook, a small industrial town on the banks of the Delaware river, talk warmly of their Republican congressman, Curt Weldon. He used to be the mayor and a volunteer fire-fighter. “I've known him since I was a kid,” says Larry Weigand, a policeman. “I've known him all my life,” says Diane Carroll, who voted for Democrats for other posts but pushed Mr Weldon's button because “He's a good guy.” He lost badly, though, on November 7th.

All politics is supposed to be local, but this week it was not. Voters in all regions of America set their dogs on Republicans and chased them out of town. The Democrats took control of the House of Representatives by default, by a substantial margin and with only minor glitches marring the conduct of the election. As *The Economist* went to press, it was probable but not yet certain that the Senate, too, would change hands: the Democrats had won 50 seats and the Republicans 49. In Virginia, however (see article), a recount was still possible, though the Democrats were 7,000 votes ahead. If the Senate is tied, it stays Republican, since the vice-president casts the tie-breaking vote.

The scale of the Republicans' defeat was not unusual for a president's party in his sixth year in office, but it was bad enough for Donald Rumsfeld, the defence secretary, to resign. The Democrats were projected to win 234 seats to the Republicans' 201, a nearly exact reversal of the Republicans' pre-election majority. Nancy Pelosi (pictured above), the presumed next speaker of the House, promised to lead “the most honest, most open and most ethical Congress in history”.

The Democrats' victory owed more to voters' disgust with the incumbents than any great enthusiasm for the alternative. In exit polls, three-quarters of voters said that corruption in government affected their vote, six in ten said they opposed the war in Iraq, and 60% said their vote was swayed more by national issues than local ones.

Marion Grayson, a Marcus Hook resident who did not vote for Mr Weldon, explained why. The war in Iraq gets “worse and worse and worse”, she said, and Republicans harp on about morals while behaving immorally. “That gets under my skin,” she shivered.

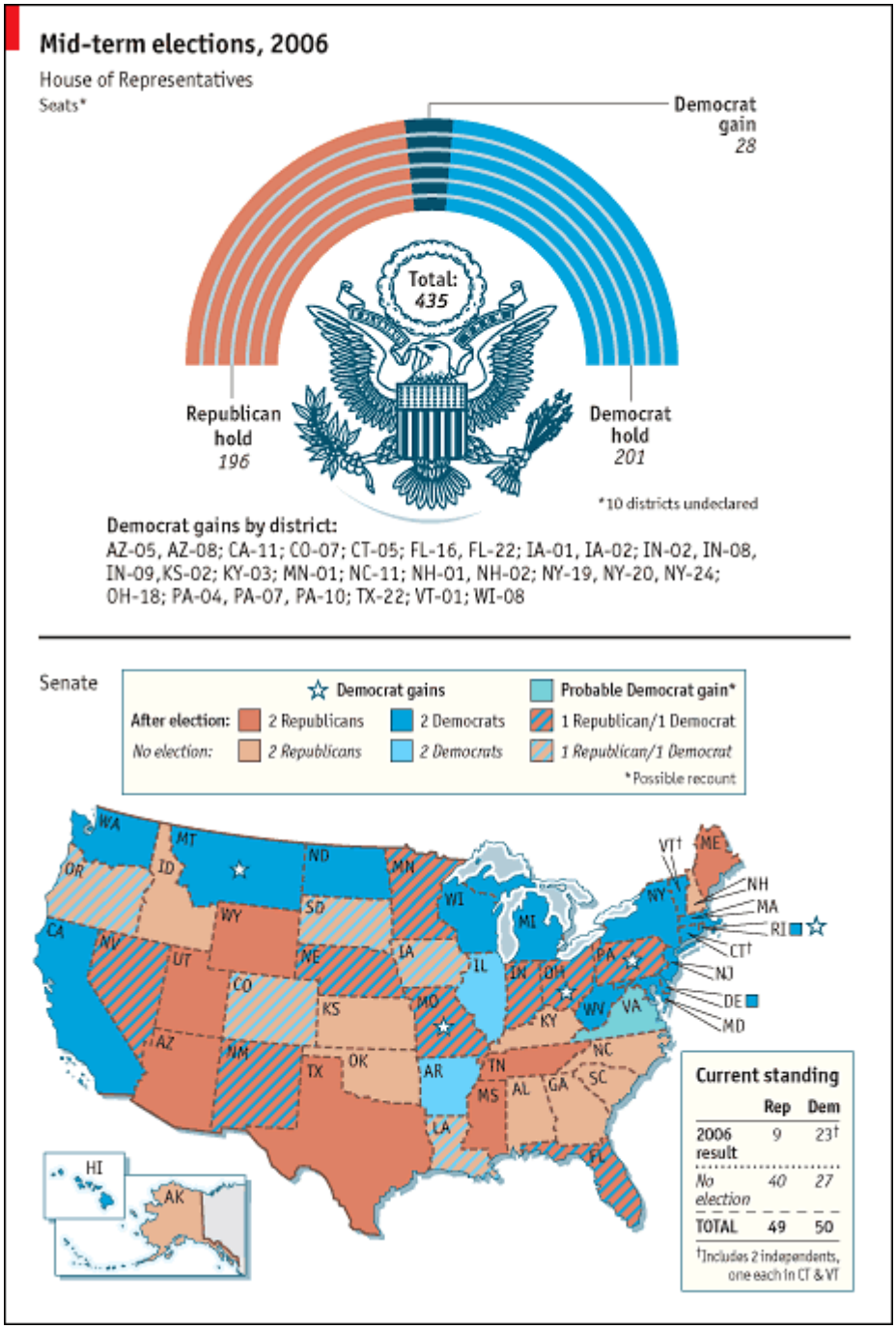
Throughout the campaign, Republicans were forced into a defensive crouch. Mr Weldon, for example,

who faced allegations of peddling influence on behalf of his daughter, was reduced to putting his wife in a television commercial pleading that he “deserves the benefit of the doubt”. Don Sherwood, another soon-to-be-ex-congressman from Pennsylvania, aired ads in which he admitted to adultery but denied throttling his mistress, as she claims he did. Neither pitch inspired.

In two states scandal-plagued Republicans resigned too late to have their names removed from the ballot. In Texas voters who wanted to replace Tom DeLay, the former House majority leader who quit over alleged campaign-finance irregularities, with another Republican, had to write in “Shelley Sekula-Gibbs”. Too few remembered this mouthful. In Florida the name of Mark Foley, who resigned after sending explicit messages to adolescent pages, remained on the ballot. His would-be Republican replacement, Joe Negron, had to explain that picking Mr Foley meant picking him. His slogan: “Punch Foley for Joe”, was snappy, but he lost anyway.

The Democrats fielded candidates with ethical question-marks against them too, but the anti-Republican barrage gave them cover. In West Virginia Alan Mollohan deflected allegations that he steered federal cash towards his friends and won two more years in the House. William Jefferson, a Louisiana Democrat defending himself against charges that the FBI found $90,000 in foil-wrapped bribe money in his freezer, was forced into a run-off, but against another Democrat. In New Jersey, where Bob Menendez, a scandal-dogged Democratic senator, saw off an energetic Republican challenge, one voter shrugged: “I'd rather vote for a gangster than a Republican.”

The best-known loser was Rick Santorum from Pennsylvania, the number-three Republican in the Senate. Mr Santorum is beloved by social conservatives for his belief that government should promote virtue, and praised by Bono, a rock star, as a champion of the poor in Africa. But moderates wince at his uncompromising stance against gay marriage. And the Democrats neutralised his appeal to pro-lifers by putting up another pro-lifer, Bob Casey, to oppose him. A gay voter said she opted for Mr Casey as “the lesser of two evils”.


Mid-term elections, 2006
House of Representatives
Seats*
Democrat gain 28
Total: 435
Republican hold 196
Democrat hold 201
*10 districts undeclared
Democrat gains by district:
AZ-05, AZ-08; CA-11; CO-07; CT-05; FL-16, FL-22; IA-01, IA-02; IN-02, IN-08, IN-09, KS-02; KY-03; MN-01; NC-11; NH-01, NH-02; NY-19, NY-20, NY-24; OH-18; PA-04, PA-07, PA-10; TX-22; VT-01; WI-08
Senate
Democrat gains
Probable Democrat gain*
After election: 2 Republicans 2 Democrats 1 Republican/1 Democrat
No election: 2 Republicans 2 Democrats 1 Republican/1 Democrat
*Possible recount
WA OR CA ID NV MT WY UT AZ CO NM ND SD NE KS OK TX MN IA MO AR LA WI IL MI IN OH KY TN MS AL GA FL SC NC VA WV PA NY VT† ME NH MA RI CT† NJ DE MD HI AK
Current standing
Rep Dem
2006 result 9 23†
No election 40 27
TOTAL 49 50
†Includes 2 independents, one each in CT & VT

The most prominent Democrat to lose was Harold Ford, a charismatic black candidate for an open Senate seat in Tennessee. Not long ago, this race was considered impossible for a Democrat to win—Tennessee did not even vote for its native son Al Gore when he stood for president. Mr Ford, however, ran a campaign that insiders of both parties judged the best by any candidate of either. He came within an inch of winning, but Bob Corker, a wealthy former mayor of Chattanooga, choo-chooed past him at the end.

The Democrats won several races by offering candidates who are either military veterans or nearly as conservative as their Republican opponents. For example, Joe Sestak, the Democrat who sank Curt Weldon, is a retired vice-admiral. In North Carolina Heath Shuler, a former star quarterback, unseated Charles Taylor, a veteran Republican House member, by stressing his Christian faith, his abhorrence of abortion and his love of guns.

Such was the anti-Republican tide, however, that leftiness was no bar to Democrats winning, and moderation no shield for Republicans. Ohio, for example, picked as its new senator Sherrod Brown, the author of a book claiming that free trade is even worse than his fellow Democrats think it is. The Republicans' most Democratic-leaning senator, Lincoln Chafee of Rhode Island, lost. So too did Jim Leach, a moderate House Republican from Iowa. His Democratic opponent cleverly argued that Mr Leach's moderation put him so out of step with his party that he had no influence, despite 30 years in Congress.

The electoral map now looks quite transformed. The Republicans remain firmly in control of the socially-

conservative South, but are nearly extinct in the north-east. The Democrats also posted substantial gains in what Chuck Todd, a poll-watcher for the *National Journal*, calls the “populist Midwest”, picking up seats in Indiana, Ohio and Missouri, and the “libertarian West”, scoring victories in Arizona, Colorado and Texas.

Some voters showed that they favour the tough line on illegal immigration espoused by many House Republicans, but not necessarily the Republicans who espouse them. Three ballot measures to crack down on illegal immigrants were approved in Arizona. But the two most prominent Arizonan agitators against illegal immigration, J.D. Hayworth and Randy Graf, both lost House races. And the Republican House anti-immigration hardliners appear to have repelled Latino voters, who told exit pollsters that they preferred Democrats to Republicans by 73% to 26%. Mr Bush's years of diligently wooing the Hispanic vote have been seemingly undone.

In a subdued and even humble press conference on November 8th, Mr Bush said he hoped he would be able to work with the new Democratic majority in the House, citing his success working with both parties as governor of Texas. But he cautioned America's enemies: “Do not be joyful. Do not confuse the workings of our democracy with a lack of will.”

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Virginia and the Senate

Every vote counts

Nov 9th 2006 | RICHMOND
From The Economist print edition

How the Senate depends on the Webb-Allen squeaker

Reuters

Apparently not

FOR all the pre-election anxiety about things that could go wrong—fraud, intimidation, voting-machine malfunction, acts of God—no one seriously considered the possibility that it might come down to a good old-fashioned squeaker. And yet Virginia, which experienced no significant funny business on the day, ended up controlling the fate of the Senate.

By November 8th, the day after the election, nearly 2.4m votes had been counted in the state. James Webb, the Democratic Senate candidate, led the Republican incumbent, George Allen, by a little over 7,000. That is roughly one-third of one percent. Good enough for Mr Webb, who began declaring victory, while his workers started answering calls with "Senator-elect Webb's office." But Mr Allen initially declined to concede. "Stay strong for freedom," he told his supporters. As *The Economist* went to press there were rumours that Mr Allen might soon decide to throw in the towel, but nothing had yet been heard from the candidate.

That suddenly, though perhaps briefly, made Virginia the most important state in the union. Within 24 hours of the polls closing the Democrats had easily secured four of the six seats they needed to win the Senate, and the fifth was all but won. Conrad Burns of Montana, down by 3,000 votes, had yet to concede defeat to the Democrat Jon Tester. But Montana is not very populous, so a 3,000-vote margin would not trigger a recount unless Mr Burns can somehow convince a judge that there are reasonable grounds for suspecting that something went wrong. So far, he has stayed silent.

Assuming that Mr Tester has won in Montana, everything therefore depends on Virginia. If Republicans hold that state, the vice-president's casting vote will keep the Senate red, and more important, ensure that Republicans continue to chair all its committees. If not, as seemed increasingly likely, the Democrats will have won both chambers of Congress.

In theory, everyone could have to wait until the Virginia Board of Election certifies the results. Unfortunately, that will not happen until November 27th, thanks to traditional, and frankly pretty ridiculous, procedures. If the duly certified results then showed Mr Allen losing by less than one percent of the vote, he would be entitled to ask for a recount. That, thanks to the wonders of Virginia law, could take several more weeks.

A recount anyway seemed unlikely to produce an Allen victory. "Canvassing" of the result—a process of checking for errors, but not a full recount—got under way immediately, but did not seem to be throwing up wild changes. Last year Virginia got some practice with the procedures when it recounted the results of the race for attorney-general. The result was that Robert McDonnell widened his winning margin from 323 votes to 360 votes.

As recently as this summer, Mr Allen was considered a top contender for the 2008 Republican presidential nomination. That seems extremely unlikely now. Someone once said that it takes just one vote to win an election, and the rest are for bragging rights. If Mr Webb takes Mr Allen's Senate seat by any number of votes, no one will disagree. Democrats may have some reservations, though. Like Joe Lieberman (see article), Mr Webb is an awkward sort of Democrat, a former marine of conservative social views, and something of a hawk, though critical of Iraq policy. The Senate, though, has always been an awkward sort of place.

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Donald Rumsfeld

Gracious me

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The defence secretary takes the rap

ON WEDNESDAY one of Washington's longest political careers came to a crashing end. Donald Rumsfeld has been both America's youngest defence secretary (in 1975-7) and its oldest (in 2001-06). He has also, for the past few years, been its most controversial, more controversial even than the Vietnam-era Robert McNamara, a man to whom he bears an eerie physical resemblance.

The knives have rightly been out for Mr Rumsfeld for years. In the wake of the 2004 election both Andrew Card, then White House chief of staff, and Laura Bush tried to persuade the president to fire him. No fewer than eight retired generals called for his resignation early in 2006. Only this week the *Army Times* and three other papers with a military readership urged the president to fire him. Until as late as last week, the president was continuing to insist that Mr Rumsfeld would stay.

But the mid-term election made his position untenable. It is not just that the newly-empowered Democrats wanted Mr Rumsfeld's scalp, and would have grilled him mercilessly until they got it. The defeated Republicans wanted it as well. Deflated, Mr Rumsfeld left, rambling that no one understood the nature of the Iraq war—save, he implied, himself.

The list of Mr Rumsfeld's failures in Iraq is long. He fought the war with too few troops. He failed to plan for the occupation. He allowed the Iraqi army to be disbanded, scattering 300,000 armed and unemployed men around the country.

These failures stemmed from a single strategic error. Mr Rumsfeld wanted to use Iraq to test his theory of “light” warfare—the ability of a small high-tech army to topple a regime. But the job in Iraq was about building a stable democracy as well as toppling a tyrant. The shortage of troops meant that America was ill-equipped to prevent looting, or to prevent rogue elements within its own forces from committing the atrocities of Abu Ghraib.

Mr Rumsfeld's fall from grace has been so complete that it is easy to forget that he was a hero in post-September 11th America. He became a symbol of America's determination to strike back at al-Qaeda and its allies. His press conferences became national events. Mr Bush took to referring to him as “Rumstud”. He was not always a master of diplomacy—as when he dismissed “Old Europe”—but he nevertheless cheered up a demoralised country.

Mr Rumsfeld's proposed successor is a much less colourful character. Robert Gates worked his way up from the CIA's ground floor to the top job. He has served under six previous presidents, dubbing himself the “ultimate insider” in his memoirs. Before taking his new job he was president of Texas A&M University and head of the National Eagle Scout Association. If the Senate agrees to confirm him, his life will get a lot tougher.

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The Connecticut Senate race

Stuck with Joe

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From The Economist print edition

Suddenly the most influential man in the Senate

EVERY race has its winners and losers. Few have a winner who lost just a few months before. But that is the odd result of the Connecticut Senate race. In August, Joe Lieberman, the state's three-term Democratic senator, suffered the unusual embarrassment of being rejected by his own party. Ned Lamont, a fresh-faced multimillionaire, ran on an anti-war platform and won the Democratic primary with 52% of the vote. He would have coasted to Washington, except that Mr Lieberman had already pledged to run as an independent if he lost the primary. On Tuesday, having lost by 40% to 49%, Mr Lamont called Mr Lieberman to concede defeat.

After the August primary, Mr Lieberman's return to the Senate was delicate. His Democratic colleagues, most of whom had endorsed Mr Lamont, did not know how to deal with him, or whether it was worth doing so. That second question has now been settled. Answering the first will be a top priority in the new—presumably Democratic, but tightly split—Senate. For Mr Lieberman, a swing vote if ever there was one, probably holds the balance of power.

During the campaign, he promised often that he would behave as a Democrat. In his victory speech, he qualified that promise. “I will go to Washington beholden to no political group,” he said. No one knows to what extent Mr Lieberman will toe the Democrat line when he returns to the Senate. He has repeatedly criticised the “politics of partisanship” in recent weeks. Exit polls suggest that he received more support from Republicans and independents than Democrats.

It is also well known that Mr Lieberman not only supports the Iraq war, but is at times downright chummy with George Bush. Working the crowd after his 2005 state-of-the-union address, for example, Mr Bush appeared to give Mr Lieberman a kiss. The embrace inspired one of the odder artefacts of this campaign season: a papier-mâché sculpture, mounted on the back of a pickup truck, showing the two men smooching.

If anything, though, Mr Lieberman won despite his support of the war and his friendship with the president, and despite the efforts of the liberal groups who opposed a sitting Democrat. Mr Lieberman chipped away at Mr Lamont's anti-war base by questioning his opponent's relative inexperience. He also deployed punning attacks, claiming to have caught Mr Lamont “Ned-handed” in a number of lies.

But the race was less about Mr Lamont than Mr Lieberman. At his victory party in Hartford, voters were well aware of how much they stood to gain by sending an independent agent to Washington. The Democratic Party, however, may be feeling queasy.

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The economic agenda

Old dogs; few tricks

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From The Economist print edition

The House of Representatives will be run by old-time Democrats

IF YOU think the Democrats' triumph in the House of Representatives will bring fresh young faces pushing a well-honed agenda, think again. Unlike the Republican upstarts who stormed to power in 1994 with their “Contract with America”, the new House will be run by congressional veterans with few coherent plans.

Nancy Pelosi, the putative speaker, has agreed to respect the ancient custom of appointing committee chairmen by seniority (a tradition the Republicans ignore these days). As a result, seven of the 19 likely committee chairmen are over 70. John Dingell, who is set to head the Energy and Commerce Committee, has been in Congress for 51 years.

Republicans have spread none-too-subtle scare stories about these war-horses, painting them as frenzied liberals out of touch with most Americans. In fact, their focus will be scrutiny as much as policy. With decades of experience watching White Houses between them, these dinosaur committee chairmen (and they are mainly men: the number of committees run by women will go from zero to three) care most about hauling Mr Bush's team over the coals. Henry Waxman, who is set to head the House Government Reform Committee, has a formidable reputation for ferreting out government wrongdoing. Mr Dingell is famous for “Dingellgrams”—huge numbers of fiery reprimands sent to government agencies—from his previous stint as a committee chairman. The same is expected again.

Less clear is whether Ms Pelosi and her generals can push a coherent agenda of their own. Officially, such an agenda exists. The Democrats' equivalent of the “Contract with America” is a 31-page pamphlet called “A new direction for America”, boiled down for campaign purposes to “Six for '06”, a six-pronged action plan that Ms Pelosi promises to enact within 100 hours of becoming speaker.

Unfortunately, this “agenda” is little more than a series of soundbites designed to show that Democrats care about the plight of ordinary workers: politically shrewd, but scant in substance. There are pledges to raise the minimum wage, expand tax-break subsidies for college, “free America from dependence on foreign oil” by boosting alternative fuels and ending tax giveaways to big oil, allow the government to negotiate lower prices with drug firms, promote stem-cell research, and stop any plans to privatise Social Security.

The plan says nothing about some of the tougher issues facing America's legislature. Not a word about how Democrats might fix Social Security's finances. No mention of how they will deal with the Alternative Minimum Tax which will, without new legislation, hit 22m Americans in 2007, up from 3.4m in 2006. Worse, the proposals are internally inconsistent. There is a promise to end the Republicans' fiscal profligacy by reinstating budget rules that require tax cuts and spending increases to be matched by savings elsewhere. But there is no explanation of how the Democrats' own pet tax cuts or spending increases would be paid for.

Within the next few months the Democrats will have to decide whether they care more about fiscal discipline or shovelling money at ordinary Americans. That decision will set the budgetary tone for the next two years. Budget hawks hope for a repeat of the 1990s, when divided government and strict fiscal rules brought balanced budgets. It seems a slim hope. The Democrats' conceit that rolling back some of Mr Bush's tax cuts will pay for their agenda is nonsense, since these tax cuts are set to expire in 2010. And many Democrats are keen to extend those Bush tax cuts that help average families, such as the child tax credit. The most likely outcome is a fudge: Democrats will introduce a series of new, sensible budget rules and then will waive them for the tax cuts they like.

They will be equally opportunistic on the rest of the “agenda”. In some areas the law will be changed. There is little doubt, for instance, that the minimum wage will soon go up. Other labour-friendly legislation, such as a tightening of workplace safety rules, may also make it into law. Compromise is also possible in places, such as immigration reform, where the Democrats' position is close to Mr Bush's.

Elsewhere, there will be much huffing but little action. Ms Pelosi will push for allowing Medicare to negotiate drug prices, knowing that such a change is unlikely to pass the Senate. She will lead the charge for stem-cell research, daring Mr Bush to veto it again. She may stymie Mr Bush's priorities. A Democratic House bodes ill for new trade agreements, for instance.

Thinking about 2008

Several government programmes come up for reauthorisation next year, including the farm bill, the State Children's Health Insurance Programme and No Child Left Behind, Mr Bush's landmark education reform. In each case Democrats will try to tilt the laws to their liking: more money for insuring poor children; more cash for schools and fewer demands on teachers; more subsidies for biofuels.

Overall, Ms Pelosi and her generals are unlikely to do anything radical. That is partly because Mr Bush's veto pen limits their room for manoeuvre, but mainly because the new House chieftains do not see themselves as revolutionaries. Their goal, after all, is not to enact a specific agenda, but to prepare the ground for the presidential election of 2008.

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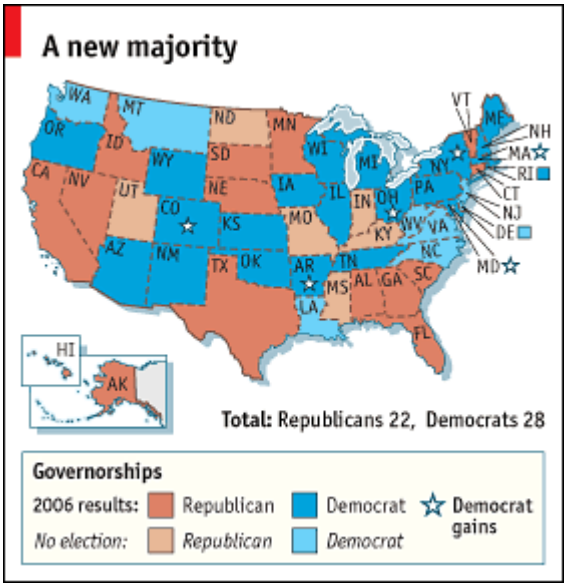
The governors

Altered states

Nov 9th 2006 | CHICAGO
From The Economist print edition

The Democrats' winnings included huge gains at the state level



WHO will be the face of the newly victorious Democratic Party? Republicans and conservative media hosts hope it will be those unlovable lefties who have just gained more clout in Congress. Fortunately for the Democrats, however, they also won a slew of governors' races this week, which means that the party now has a few slightly more pragmatic leaders to parade before America's voters.

The Democrats took over Republican-held mansions in six states, and now boast 28 of the nation's 50 governors. Many of those governors will also be working with state legislatures that tilt much more in the Democrats' direction. Going into the election, America's nearly 7,400 state legislative seats were divided almost evenly between the two parties; but the Democrats gained roughly 275 seats on Tuesday, according to the National Conference of State Legislatures (NCSL). That is not as big a haul as the 472 seats that Republicans gained in 1994, the last time a national wave swept the country. But it was enough to win the Democrats a majority in nine more legislative chambers. They now control both chambers in 23 states, compared with only 16 states for the Republicans.

Most of the governor spots that Democrats gained were in open races, where Republicans were retiring or term-limited. Some of those states were already pretty Democratic, and the party was sure to win them. In New York state, for example, Eliot Spitzer, the attorney-general who made his name going after Wall Street malefactors, easily won the race to succeed George Pataki. In Massachusetts Deval Patrick, a black Democrat, cruised to victory in the race to succeed Mitt Romney, a Republican with presidential ambitions. Both states heavily favoured John Kerry, the Democrats' presidential candidate, in 2004.

As expected, the Democrats also picked up Ohio, a state where total Republican control was marked by widespread corruption under Bob Taft. Those failings allowed Ted Strickland, a Democratic congressman, to thump Kenneth Blackwell, Ohio's secretary of state, in the governor's race, winning 60% of the vote.

Among the few bright spots for Republicans was California, and that was only because Arnold Schwarzenegger, who already has little in common with his party's social conservatives, made peace with the Democrats. After losing some embarrassing ballot measures last year, the governor apologised to voters for his hostile relations with Democrats and compromised on economic and administrative

reforms. That boosted his flagging ratings, and he cruised to his sequel—Gubernator 2.

One of the most important gains for the Democrats was in Colorado, where Bill Ritter, who campaigned effectively as a pragmatic centrist, won easily. Five of the eight governors in the interior West are now Democrats, giving them a huge lift in a region where they won no presidential electoral votes in 2004. The party may soon announce that Denver will be the site of its 2008 convention, further highlighting its new appeal in the mountain West.

If they can learn when to say no to state lawmakers from their own party, all those Democratic governors offer the party a golden chance to reshape its image. But after fighting hard to gain control of all those legislative chambers, many of those lawmakers—and their fired-up supporters—may have other ideas.

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Ballot initiatives

Pay me more, don't let them wed

Nov 9th 2006 | CHICAGO
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The true voice of the people makes itself heard

IT WAS a typically mixed bag, as chaotic as democracy itself. Voters rejected a few high-profile ballot initiatives that were dear to social conservatives; progressives cheered the success of their own causes; and libertarians marked some gains and some losses, as Americans voted on more than 200 statewide ballot initiatives on Tuesday. People appear to be getting fed up with illegal immigrants in Arizona and Colorado, and with affirmative action in Michigan. They remain intolerant of those who smoke marijuana in private, and are increasingly hostile to those who smoke tobacco in public. Amid all those decisions, a few broad patterns stood out.

One is that opponents of socially conservative causes were able this time to defeat some of them. Arizona's voters—surprisingly for a supposedly conservative place—became the first in any state to reject a gay-marriage ban. A South Dakota law that would have severely restricted abortion—and which many backers hoped would eventually test George Bush's two new Supreme Court justices—was instead overturned by the state's voters, 56% to 44%. And in Missouri an amendment to encourage stem-cell research appeared to have passed narrowly.

Those who would like to abolish any legal distinction between gay and heterosexual couples should take only a little solace from the Arizona vote. Voters backed amendments banning gay marriage in seven other states this week, and since 2000 have done so in all the 20 other states that considered them. This year's bans won by narrower margins in a few states, but that probably reflects an unusually high turnout by the left in a year of anti-Republican rage. Arizona's ban probably failed because its conservative backers conflated two issues that many voters prefer to regard as separate. Instead of simply trying to define the symbolic institution of marriage as a strictly heterosexual bond, it also tried to ban civil unions, which let committed gay couples enjoy some of the same economic benefits that married couples do.

Leftish voters took more cheer from a flurry of initiatives to raise minimum wages, which passed in all six states where they were on the ballot. Although there is already a federal minimum wage of $5.15 an hour, many states have opted for higher wage floors. The measures that passed this week will boost them by as much as $1.70. This issue was hugely popular among Democrats on the campaign trail, and many candidates for Congress pledged to raise the federal minimum wage if they won.

Libertarians and small-government types, meanwhile, had a mixed day. Voters in nine states backed measures to protect property rights, by narrowing the uses for which governments can take property under eminent domain. In Arizona voters also made it much harder for the government to pass regulations that destroy a property's value. But voters in three other states rejected similar regulatory initiatives. And Jennie Drage Bowser, who tracks ballot measures for the National Conference of State Legislatures, has pointed out that many other efforts to rein in government failed, including half a dozen measures to repeal taxes or limit state-government spending. Those outcomes, too, may reflect disproportionate turnout by Democratic voters in an anti-Republican year.

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Lexington

Inner demons

Nov 9th 2006
From The Economist print edition

The religious right is down but not out

Get article background

A FORTNIGHT ago Ted Haggard was one of the religious right's brightest stars. He was the founder of a booming megachurch, the president of the 30m-strong National Association of Evangelicals and a leading campaigner against same-sex marriage. He was also a close friend and neighbour of James Dobson, the movement's *capo di tutti capi*, and an enthusiastic ally of George Bush. He liked to say that he and the president agreed on everything except which pickup truck to drive—Mr Haggard drives a Chevy while the president drives a Ford.

But what did he do when he was driving around in that Chevy pickup? On November 1st a male escort accused Mr Haggard of sundry sordid misdeeds—including paying him for sex on a regular basis and using methamphetamines. Mr Haggard produced a series of bizarre denials. He had bought meth but thrown it away. He had been in the market for a regular massage. But by the end of the week he came clean and stepped down. “There's a part of my life that is so repulsive and dark that I have been warring against it for all my adult life.”

Mr Haggard's fall is a symbol of bigger problems for the religious right. This election cycle was a dismal one for the so-called theocrats. Mr Dobson urged his flock to “take about five people with you and vote. It would be a sin not to.” But the turnout was a disappointment from the Republicans' point of view. Early opinion polls suggest that a third of white evangelicals voted for Democrats, many of them complaining about corruption. In 2004, only one in five chose the sinful party.

The result was a string of defeats. Rick Santorum, social conservatism's most prominent champion in the Senate, scraped only 41% of the vote in Pennsylvania. Kenneth Blackwell, a black social conservative, went down to a humiliating defeat in the Ohio governor's race. The religious right also lost three important ballot initiatives (see article). In all, a terrible night.

And all this has come on the heels of two dismal years for religious conservatives. Ralph Reed, the *Wunderkind* of the Christian Coalition, has been exposed as a huckster who was willing to exploit social conservatives in order to rig a gambling concession. The religious right's chosen vehicle of national redemption—the Republican Party—has been tarnished as the party of Mark Foley and Jack Abramoff. And after six years of Republican rule, millions of fetuses are still aborted, and gay marriage has still not

been nationally banned, though a majority of states now bar it.

The religious right's biggest problem, however, is not scandal: it is the movement's addiction to overreach. The most disastrous example of this was the Terri Schiavo affair—the case of a severely brain-damaged woman who was caught in a battle between her husband, who wanted to remove her feeding tube, and her parents, who wanted it left in place. The religious right tried to use the full might of Washington to keep Mrs Schiavo “alive”. And a large majority of the general public—including 72% of Republicans in one poll—responded with a big boo.

This overreach has given the Democratic Party a chance to make inroads into the evangelical vote. Bob Casey won the Pennsylvania Senate seat from Mr Santorum, in part, because he stressed his pro-life credentials. The man who beat Mr Blackwell for the governorship of Ohio, Ted Strickland, is an ordained minister. Meanwhile, some conservatives are voicing their unhappiness. Dick Armey, a former Republican majority leader and devout Christian, says that “Dobson and his gang of thugs are real nasty bullies”. He worries that they are driving away moderate business-friendly conservatives, and that they are fixating on issues, such as school prayer, that have no political traction. “Being a Christian”, says Mr Armey, “is no excuse for being stupid.”

Of course, a couple of bad years do not mean the end of an era. Christian conservatives have always been plagued by disasters and scandals. Two of the most popular preachers of the Reagan era—Jim Bakker and Jimmy Swaggart—were both caught with their trousers down. The Moral Majority collapsed. The Christian Coalition has shrivelled. Pat Robertson and Jerry Falwell have been putting their feet in their mouths for years. Libertarians and social conservatives have long had a tetchy relationship: Barry Goldwater once urged “every good Christian” to kick Mr Falwell “right in the ass”.

Trousers down, feet in mouths

The religious right still has two things going for it. One is the Democratic Party's inveterate hostility to religion. A fifth of Democratic votes in 2004 came from “seculars, atheists and agnostics”, and many leading Democrats are woefully ignorant when it comes to religious America. In “Tempting Faith”, David Kuo recounts his attempts to help leading Democrats increase their appeal to religious conservatives. Aides to Harry Reid, the Democratic minority leader in the Senate, did not know what the Family Research Council or the National Association of Evangelicals were.

The movement, though damaged, has an uncanny ability to reinvent itself. Sam Brownback, a senator from Kansas, is a tireless crusader against the massacres in Darfur and sex-trafficking everywhere. Many evangelical organisations—including Mr Haggard's—have been trying to broaden their agenda to include global poverty and global warming.

But the lesson from the past two years—and from this Tuesday's results in particular—is that conservative Christians had better hurry up with the work of reinvention. Try shining the light a bit more on Mr Brownback and a bit less on the 70-year-old Mr Dobson. And try talking more about Darfur and less about “the homosexual agenda”. The religious right is very far from dead. But it does not need any more humiliations such as the one inflicted on Mr Santorum this week.

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Nicaragua

Fasten your seat belts

Nov 9th 2006 | MANAGUA
From The Economist print edition

The test of Daniel Ortega's claim that he is a reformed character will be whether he can mix Venezuelan aid with American investment

Reuters

Get article background

HOW much has Daniel Ortega changed? That was the question Nicaraguans were asking after the Sandinista leader won a presidential election held on November 5th. The last time he was in power, from 1979 to 1990, his presidency was marked by revolution, civil war, confrontation with the United States and runaway inflation. This time, Mr Ortega promises, will be very different.

One salutary sign was that in victory Mr Ortega was respectful of his opponents, calling for a “new political culture” of constructive pluralism. With 91% of the votes counted, Mr Ortega had 38% and a nine-point lead over his closest rival, Eduardo Montealegre, an American-backed investment banker and former finance minister. Under the rules, that was enough to avoid a run-off ballot. Mr Montealegre conceded defeat, visiting Mr Ortega's headquarters where both men pledged to work together to fight poverty.

Earlier, after meeting Jimmy Carter, a former American president who was observing the election, Mr Ortega said that he wanted to offer “security to the private sector and to investors.” There are rumours that he may try to persuade the current finance minister and the head of the central bank to stay on.

Investment is urgently needed. Managua, the capital, is a different city than it was in the 1980s. Although the centre, destroyed in a 1972 earthquake, has never been rebuilt, the surrounding urban sprawl is dotted with shopping malls and American fast-food franchises. The Pacific coast and the colonial towns of León and Granada have filled up with surfers and American retirees. There, restaurant menus are in English and prices in dollars.

But elsewhere Nicaragua has barely changed since Mr Ortega last ran it. After Haiti, it is the second-poorest country in the Americas. Although poverty is slowly falling, in 2001 46% of the population lived on less than $386 a year according to the World Bank. Drive out of Managua towards the Atlantic coast and supplies of electricity and drinking water become erratic, and almost nobody has a steady job.

To develop, Nicaragua needs outside help. Last time Mr Ortega was in power, after his Sandinista movement toppled the American-backed dictatorship of Anastasio Somoza, the United States did its best

to overthrow him through the *contra* guerrillas. Despite America's backing for Mr Montealegre in the campaign, this week its officials said they would work with Mr Ortega provided he supported Nicaragua's “democratic future”.

Mr Ortega has more enthusiastic backing from Venezuela's anti-American president, Hugo Chávez. In the short term that may be more useful to him. The two most pressing issues he will face after taking office in January are energy shortages and a burgeoning public debt, says Arturo Cruz, a political analyst at INCAE, a business school in Managua. Mr Chávez is already providing some subsidised diesel fuel to a group of Sandinista mayors. This programme is likely to expand. Four-fifths of Nicaragua's electricity comes from oil. Venezuela has also bought bonds issued by Argentina and Ecuador, and might do the same for Nicaragua.

But Mr Chávez's largesse abroad is attracting criticism at home (see article) and Nicaragua needs private investment as well as foreign aid. This means treading a fine line between Venezuela and the United States. Nowadays Mr Ortega is a pragmatist; he may swallow his reservations about the Central American Free-Trade Agreement with the United States.

The Sandinistas have a powerful grip on local government and influence over the courts, but in the legislature they will lack an overall majority. After losing the previous two elections, Mr Ortega made a pact with Arnoldo Alemán, a former president who was convicted of corruption and who still controls the Liberal party. Mr Ortega owes his victory to this unholy alliance. One of its fruits was the scrapping of the previous rule that a candidate winning less than 45% of the vote would face a run-off ballot. And Mr Alemán's refusal to back Mr Montealegre split the opposition vote. Mr Ortega benefited from another stroke of fortune: Herty Lewites, a popular former Sandinista running for a centre-left party, died during the campaign.

Mr Ortega may have become more moderate as circumstances have changed. But it remains to be seen whether he is the man to preside over the modernisation that Nicaraguan politics needs if the country is to prosper.

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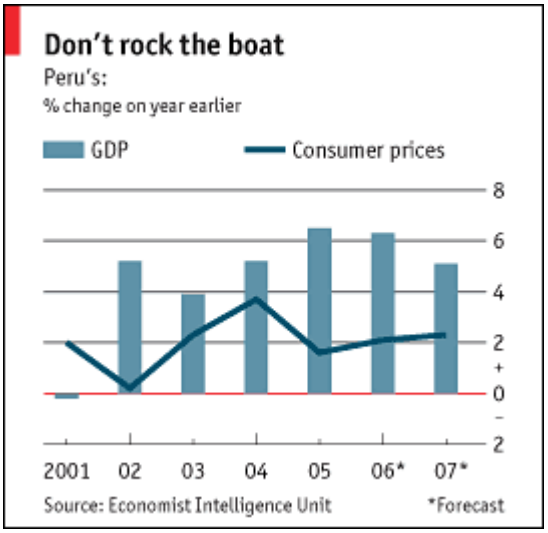
Peru

New-model Alan

Nov 9th 2006 | LIMA
From The Economist print edition

A careful start to a second term



IN THE 1980s he presided over hyperinflation, nationalisations, price controls and a guerrilla war. Now back in office after years in the political wilderness, he is bending over backwards to seem like a moderate statesman. No, this is not Daniel Ortega (see article) but Peru's president, Alan García.

Since taking office at the end of July, Mr García has combined a few populist gestures with many of the business-friendly policies of his predecessor, Alejandro Toledo. The first category includes a bill to impose the death penalty on paedophile murderers and on terrorists, and wage cuts for senior officials, ministers and congressmen. The second set of policies has comprised steps to cut red tape for businesses, appointing a fiscal hawk as finance minister and a lobbying campaign to try to persuade the United States' Congress to approve a free-trade agreement with Peru. Mr García has dropped a campaign pledge to levy a windfall tax on mining companies, and instead wants them to make a voluntary contribution.

The mixture has gone down well with Peruvians. Opinion polls show the president's approval rating has edged up to around 60%. It helps that Mr García inherited a healthy economy (see chart). High mineral prices have contributed to booming exports. Although he has kept Mr Toledo's economic policies, the president has deftly distanced himself from his predecessor's personal failings. He slashed the official budget for expensive whisky and grounded the presidential jet. Instead, Mr García travels tourist class. When confronted with media reports that he had fathered a child when separated in 2004, he called a press conference to express his warm feelings for the child, its mother and his wife. That was in sharp contrast to Mr Toledo's handling of a similar claim.

But there are occasional glimpses of the old Mr García, too. He has lashed out at critics, from environmentalists and human-rights activists to the divided opposition. He pops up to announce personally even the most mundane news, such as the end of a dockworkers' strike.

He is lining up foreign aid for a much-needed anti-poverty programme, but it is not clear whether he will take the tough measures needed to improve education and health. His shrewd prime minister, Jorge del Castillo, has been wheeled out to settle a series of protests, including one by Amazonian Indians which shut down the main oilfield for almost a fortnight. Some Peruvians worry that this will merely encourage further protests.

Although Mr García's APRA party may not do well in local elections on November 19th, the outcome is unlikely to have much bearing on national politics. More important will be the fate of the free-trade agreement, and whether the government succeeds in reaching agreements with the mining companies on tax and with Spain's Telefónica, the dominant telecoms operator in Peru, on reduced charges. The test of Mr García's new moderation will come when the going gets tough.

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Venezuela

The Man from Maracaibo

Nov 9th 2006 | CARACAS
From The Economist print edition

At last, the opposition to Hugo Chávez finds a star of its own

Get article background

JUST a few months ago, Venezuela's opposition was divided, apathetic and nervous. With a presidential election due on December 3rd, Hugo Chávez, who is seeking a fresh six-year term, was flush with petro-dollars and riding high in the opinion polls. The dozens of small political parties and pressure groups that make up the opposition could not even agree on a method for selecting a candidate. Many thought the election was so heavily rigged in Mr Chávez's favour that the only sensible option was to boycott the whole process. A similar ploy in December last year had left the 167-member National Assembly without a single opposition member.

Step forward Manuel Rosales, the governor of the western state of Zulia, whose capital is Maracaibo, the country's second city. He has never lost an election since becoming a local councillor 27 years ago. As a provincial politician with his own power base, he was freer than most rivals to cut through the backroom deal-making, heavily influenced by media bosses, that has blighted opposition politics in recent years. He skilfully outmanoeuvred the abstentionists, securing the candidacy and the support of almost 40 political groups.

Reuters

Rosales rallies the discontented

Since then he has criss-crossed the country, striding through poor neighbourhoods from the Colombian border to the Orinoco delta, hugging old ladies and kissing babies. On November 4th several hundred thousand supporters accompanied him on a 26km (16 mile) march across Caracas. That was reminiscent of the mass rallies against Mr Chávez between 2002 and 2004. The opposition's troops are in good heart. Even Mr Chávez, used to dictating the political agenda, has been forced partly on to the defensive.

So can the president be defeated? Probably not. Many of the polls are biased to one side or the other. But the best guess is that Mr Chávez retains the support of at least half the electorate, with Mr Rosales probably 20 points behind. Since the president, a former army officer who led a failed coup in 1992, was first elected in 1998 the voters have consistently split about 60:40 in his favour. With abundant oil revenue at his disposal and no budgetary restraints or institutional checks on his power, Mr Chávez is a tough opponent.

But Mr Rosales has landed some punches. Mr Chávez spent much of this year touring the world doling out gifts in a failed bid for a seat at the United Nations Security Council for Venezuela. Rather than the “anti-imperialist” struggle abroad, says Mr Rosales, what needs attention is rampant crime, a housing shortage and persistent unemployment at home. His campaign features a debit card which he says he would use to distribute 20% of oil earnings directly to the poorest members of society. “That's much less than what this government has given to other countries,” he claims.

The card could be a vote-winner. Polls show big majorities against the foreign handouts Mr Chávez uses to gain allies for his crusade against the United States. That, in the view of his opponents, was why Mr Chávez this week snubbed London's mayor, Ken Livingstone, cancelling his planned trip to Caracas at the last minute. The British leftist was to sign a deal that would swap cheap diesel for London buses for advice on crime, waste disposal and the like. Venezuela's foreign minister will now sign the deal in

London.

Mr Rosales lacks Mr Chávez's skill as a communicator. But like the president, he comes from a humble background. Unlike him, he is happily married. Several of his ten children are adopted. His wife Eveling is an accomplished campaigner. The government derides him as a typical product of the discredited pre-Chávez era. But he broke with the dominant party of that era in the early 1990s. If he can create a strong enough organisation to hold the opposition together even in defeat, he will have achieved more than its last two presidential candidates. There will be opportunities ahead. With deepening social discontent and falling oil prices, Mr Chávez's “revolution” is likely to run into trouble.

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Audacious Canadian initiative

Joining the rotary club

Nov 9th 2006 | OTTAWA
From The Economist print edition

An exotic means of controlling traffic

ONE afternoon last month roadworkers removed the covers from Yield signs at a newly built roundabout in Cambridge, in south-western Ontario, watching anxiously to see what would happen. Traffic lights, the traditional method of controlling intersections in Canada, had been ripped out. Drivers faced an unfamiliar circle. Would they know what to do?

The question would seem absurd to Britons, who invented the modern roundabout in the 1960s. But in Canada until very recently, they were rare (as they were, apart from the odd circle in New York and Washington, DC, in the United States until the 1990s). Now they have sprouted as far afield as Fort McMurray in the Alberta oil sands, the old industrial port of Trois-Rivières in Quebec and right outside the prime minister's residence in Ottawa.

An earlier version of the roundabout appeared in Canada a century ago. Since this is North America, they were built on a grand scale. Traffic roared round and entering vehicles had priority. The result was similar to the Gallic anarchy of Paris's Place de L'Étoile. Horrified, the authorities replaced most of these “rotaries” with traffic lights. A surviving rotary in Halifax has been the subject of a spoof film in which a woman driver is trapped there for a week.

The new vogue for roundabouts follows intensive study by Canadian traffic engineers of their adoption south of the border. They concluded that roundabouts produced less congestion, fewer serious accidents and lower emissions. Best of all, unlike lights, they work even when the power grid fails.

Quebec is enthusiastic, issuing guidelines in 2002 for proper construction of *le carrefour giratoire*; it now has about 80 roundabouts. In Ontario the Waterloo region (which includes Cambridge) is a pioneer, but the provincial government worries about pedestrian safety.

Traffic engineers admit to teething troubles. One saw a vehicle turn left into oncoming traffic. The driver then threw his car into reverse and went all the way round backwards. Another said pedestrians were afraid to cross a roundabout in Montreal. Drivers now face higher fines if they fail to yield to them. Snow has proved less of a problem than feared. Snowplough drivers are told to keep circling until the road is clear. So far there have been no complaints of dizziness.

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Bermuda

The happy colony

Nov 9th 2006 | HAMILTON
From The Economist print edition

A campaigner without a cause

AN ARCHIPELAGO in the mid-Atlantic, 650 miles (1,050km) east of Cape Hatteras, Bermuda has done very well from its isolation. Once a staging post for fleets and aircraft, it has recently become home to much of the world's reinsurance industry. Yet despite 326 years of self-government, it remains technically a British colony. Is that about to change?

Last month Ewart Brown challenged for and won the leadership of the ruling Progressive Labour Party, thus becoming Bermuda's premier. Known as “Doc Hollywood” partly because of his political flamboyance, Dr Brown has long supported the cause of independence. His predecessor talked a lot about the issue but did nothing. The new government's Throne Speech outlining its programme was oddly silent on the matter.

The paradox is that all the attributes that make the island a viable candidate for sovereignty are also those that make Bermudans shrink from the thought of it. Since they are already prosperous and secure, many see in independence the potential for loss rather than gain. The insurance companies that have flocked to the island fear that argument over the issue could jeopardise political stability.

Around 35% of Bermuda's population of 65,000 is white. Some among the black majority once leaned towards independence, but support has cooled as race relations have improved. Many black Bermudans believe that education and housing are more important issues than their country's constitutional status. Independence would mean breaking ties not just with Britain but with the European Union.

Does this mean that Bermuda will remain politically adolescent forever? Dr Brown says that independence remains an “objective”. But for now most Bermudans seem perfectly happy for it to remain just that.

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Japan's economy

Pitching for growth

Nov 9th 2006 | TOKYO
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Shinzo Abe—and the economy—may be more vigorous than they look

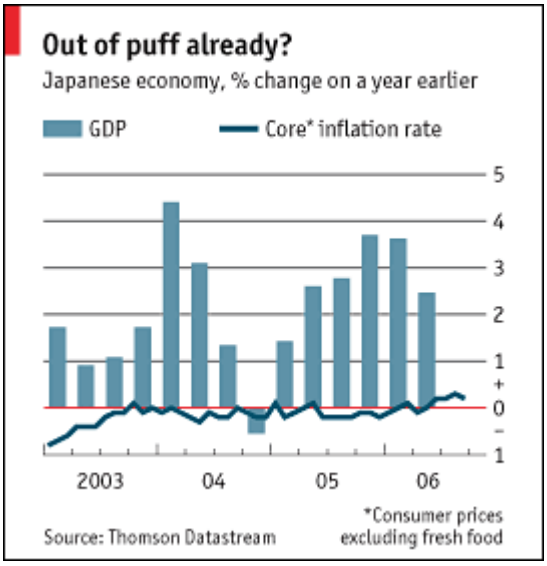
AP

Get article background

THE school of Japan-watchers that keeps an eye on the country's economy chiefly out of a morbid interest in terminal decline has stopped dwindling. It has even taken on new adherents of late. For signs are mounting that the recovery that began in 2002 has slowed—or even, some say, gone into reverse.

The chief worry is that what started as a recovery driven by exports (chiefly to China), and then expanded to one led by business investment, has failed to spread to households, whose spending remains sluggish. Prices still flirt with deflation (see chart). And some economists predict that figures published on November 14th will show that the economy actually shrank in the third quarter.

This exacerbates a deeper unease: a belief that the new prime minister, Shinzo Abe, has more interest in foreign affairs than in tackling the domestic rigidities that constrain Japan's potential to grow. The belief was reinforced by his energetic diplomacy over North Korea in his first month in office. But he was being written off even before that, either on the grounds that he lacked the reformist instincts of his predecessor, Junichiro Koizumi, or that he lacked the authority to push through unpalatable reforms, with important upper-house elections due next July.



Is this growing uneasiness justified? Mostly not. Take the economy first. Certainly, its anaemic performance marks this recovery as out of the ordinary, but then it follows long years of extraordinary distress. Habits are hard to change. So even though households now have more income—because companies are hiring more, and raising overtime and bonuses—this has not shown up in consumer spending. Alarm mounted last week when the main survey of household spending recorded a plunge in September of more than 6% compared with a year earlier. Yet this fall is too big to be credible; the survey (like early GDP numbers and other Japanese statistics) is notoriously unreliable.

Meanwhile, expectations are rising, even if habits have not yet caught up. Households' estimates of future inflation and property prices have climbed since the spring. People are not spending gaily, but they are starting to remove money from risk-free havens and invest it again. Deflation had killed the appetite for risk. There are other signs that the recovery is still broadly on track, even if it has, as in 2004, hit a soft patch. The latest bank lending figures seem to confirm this: though growth slowed in October, the year-old recovery in bank lending is still intact.

On November 7th the Bank of Japan's governor, Toshihiko Fukui, gave warning that it would not wait for a build-up in inflation before raising interest rates, now at 0.25%. Many economists think that the central bank is itching to raise rates, so risking undercutting a weak economy. “Core” inflation—including energy but excluding fresh food—is just 0.2%. If energy is excluded, as it is in other countries' measures of core inflation, prices are actually falling. So a rate rise this year would probably generate more controversy than the central bank is ready for. Meanwhile, with interest rates low and the yen weak, monetary conditions are exceptionally loose. The economy might confound downbeat expectations in the coming months.

Ditto, with luck, the prime minister. For Mr Abe is throwing out hints of wanting to bring about more far-ranging structural change than his predecessor managed. After he had cleaned up the banks' bad loans, so setting the stage for economic recovery, Mr Koizumi's great—some would say, only—passion was for privatisation of the postal-savings system, which lunged at the heart of Japan's money politics. Mr Abe, by contrast, has strengthened economic policymaking within the prime minister's office, and reinvigorated the key body of the early Koizumi years, the Council on Economic and Fiscal Policy, stuffing it with reformists.

One of its members, Takatoshi Ito, of Tokyo University, says the ideas spilling out of the council point to a new stage of change for Japan. The aim is to tie the country more deeply into the global economy by seeking more free-trade agreements (including even with China and America) and boosting pitifully low levels of foreign investment in Japan. A priority is to address Japan's so-called “dual” economy. The competitive exporting industries are not matched in agriculture and services, which are shielded from competition, lack economies of scale and are backward in their use of information technology. To boost investment, the government is mulling a cut in corporate income tax and other tax changes. Deep reforms to pensions and health care are also expected.

Japan's demography, says Genichiro Sata, the minister for regulatory reform, demands higher growth, and it is the Abe government's intention to impart deep structural change—including even a wholesale restructuring of government, by crunching Japan's 47 prefectures into a handful of American-style states. These are early days. Mr Abe has given little sense yet of his priorities, and many of the proposals are hardly vote-winners. Reformist achievements are yet to be seen. But the charge that Mr Abe has no reformist intentions is getting harder to make.

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Taiwan

Sufficient immunity

Nov 9th 2006
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A wounded president fights on

AP

Chen waives the rules

IF TAIWAN'S president, Chen Shui-bian, manages to serve out his remaining 18 months in office, they are unlikely to be his pleasantest. Allegations of corruption have been swirling around his family and aides for months. Public prosecutors have now directed them at Mr Chen. He denies the accusations. But his job security depends on his fractious party and its allies.

Taiwanese politics, long roiled by bitter tensions between Mr Chen and opposition parties dominant in the legislature, may be heading for greater turmoil. As president, Mr Chen is immune from prosecution. But on November 3rd prosecutors charged his wife, Wu Shu-chen, with embezzling nearly $450,000 from a fund used for secret diplomacy. They also accused three former aides of related offences, and said Mr Chen himself could be indicted when he leaves office.

In a televised speech two days later Mr Chen said the allegations felt like a “political death sentence”. But he delivered a lengthy denial of any corruption by himself or his wife. He said he would resign if his wife was convicted, but her trial could well take many months. The speech appears to have helped prevent a rebellion against the president by legislators from his Democratic Progressive Party (DPP) and its allies. Opposition parties this week launched their third attempt this year to dismiss the president. This requires the support of two-thirds of legislators followed by a majority of voters in a plebiscite with a turnout of at least 50%. The legislature is expected to vote on this later this month, but the opposition looks highly unlikely to muster enough support.

Mr Chen's popularity, however, appears wrecked. And the strength of his party's support for him faces critical tests in the coming months. On December 9th the biggest cities, Taipei and Kaohsiung, will conduct mayoral elections. The main opposition party, the Kuomintang (KMT), says it regards these as a vote of confidence in Mr Chen. It is widely expected that the DPP will lose considerable support in Kaohsiung, normally its stronghold. Late next year elections are due to be held for Taiwan's legislature, in which the opposition could well strengthen what is now only a slim majority for their camp. DPP politicians may try to distance themselves from Mr Chen in order to improve their chances.

The impending trials may also prove damaging. Although Mr Chen's campaign for the presidency in 2000 stressed the corruption of the previous five decades of unbroken rule by the KMT, he won with only 39% of the vote thanks to a split in the opposing camp. His re-election in 2004 was achieved by only a wafer-thin margin. Intermittent large-scale street protests calling on Mr Chen to step down, which were launched in September by a former DPP chairman, look likely to continue.

China must be worried. If Mr Chen goes, Annette Lu, the vice-president, would take over. Mr Chen is much disliked by Chinese officials because of his support for Taiwan's independence from the mainland. Ms Lu is even more so. But if he stays in office, Mr Chen might be tempted to pander to his pro-independence supporters, including the radically independence-minded Taiwan Solidarity Union, whose 12 votes in the legislature are vital to defeating opposition efforts to recall him.

Last week Mr Chen said in an interview with Britain's *Financial Times* that proposals for Taiwan to freeze its constitution and introduce a new one defining its boundaries in relation to China were worth

considering. Such a move would certainly enrage China. “There is nothing impossible under the sun,” said Mr Chen. That goes for keeping his job for the next year and a half, too. But it would certainly be something to boast about.

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Elections in China

No contest

Nov 9th 2006 | BEIJING
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The party still fears the voter

Reuters

Not much democracy, but a whopping great ballot box

GRASSROOTS democracy in China, which began to show faint signs of life three years ago, is struggling. On November 8th millions of voters in Beijing took part in largely stage-managed local elections. The authorities seem to have had second thoughts about encouraging more combative contests.

In 2003 elections to district people's congresses, the lowest legislative tier in urban China, inspired a glimmer of hope that the Communist Party was ready to relax its tight control of these rubber-stamp bodies. In Beijing, for the first time in more than two decades, people got their names on the ballot papers without official backing. A handful campaigned on the streets (not normally allowed). A few were even elected. Some state-controlled newspapers eagerly reported these developments.

If allowed to flourish, this experiment could have been important. District congresses (or county congresses in rural areas) elect local-government chiefs and select members of higher-level legislatures. But this year the mood has been very different. Independent candidates were still permitted in Beijing, but the official media gave no encouragement. A government-backed candidate in one district says he was instructed by staff of the legislature not to give interviews. Xu Zhiyong, a law lecturer who won a seat in 2003, says he advised fellow independents to avoid the media for fear of provoking party conservatives into blocking their election bids.

Between July 2006 and the end of next year, elections to fill some 2m seats are being held in all of China's urban and rural districts. Beijing chose to hold them this year, apparently to avoid having the elections close to a five-yearly party congress late next year and the Olympics in August 2008. President Hu Jintao is expected to tighten political controls in the build-up to the congress to avoid any disruption by the party's critics. Officials also worry that activists might be emboldened by international attention focused on the games.

Outside Beijing, the authorities in some areas appear to have gone to greater lengths to discourage independent candidates. Yao Lifa, a pioneer of independent campaigning who won a seat in his hometown of Qianjiang in central Hubei province in 1998 only to lose it in 2003 (he says the polls were rigged), stood again this year but did not make it to the final ballot sheet. In the run-up to Qianjiang's polls, held on the same day as Beijing's, Mr Yao says he was detained for several hours by the police, who questioned him about a letter he wrote to President Hu complaining about the harassment of several independent candidates by security agents.

Political reform is still officially on the party's agenda. A Central Committee resolution last month called for an expansion of grassroots democracy, as well as respect for human rights and greater democracy within the party itself. In one hopeful development at the end of last month, a court in Shandong province overturned the conviction of a blind activist, Chen Guangcheng, whose case had attracted international attention. But there are few signs that President Hu is in a hurry to put his democratic pledges into practice.

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Nepal

Himalayan hopes

Nov 9th 2006 | KATHMANDU
From The Economist print edition

Improbably, peace seems within reach

IT SEEMS too good to be true, and may yet prove so. But it is a moment for celebration. After ten years of dirty civil war, Nepal's peacemakers on November 7th produced a deal that has the support of everyone who is anyone in politics. Leaders of both the Maoist rebels and the coalition government who negotiated it spoke this week of the willing compromises they each made to reach agreement.

More important, it meets the demands of the great mass of war-weary Nepalis. In April they bravely took to the streets and forced an end to a disastrous period of direct rule by King Gyanendra. In their hundreds of thousands they demanded peace and progress after a decade of brutality in which the country slid backwards. The movement demanded co-operation between the Maoists and the political parties in the present government. It gave their leaders little choice but to deliver.

Under the deal, Maoist fighters will be confined to camps supervised by the United Nations and their weapons will be stored in sealed armouries. To give symbolic parity, a similar number of government soldiers and guns will be confined. The Nepalese government, using money given by foreign donors, will pay for their upkeep. This should in theory mean the rebels will now end their rampant extortion.

That will clear the way for the Maoists to join the existing seven coalition parties in an interim government, which is due to be formed on December 1st. It will operate under an interim constitution and answer to an interim parliament in which the rebels will have 73 out of 330 seats.

As a sop to republicans among the Maoists—and in the broader “people's movement” that toppled the king's government—all royal property will be nationalised at once. An assembly to write a new democratic constitution is due to be elected under UN supervision in June next year. The first item on its agenda will be the permanent fate of the monarchy.

More than 13,000 people died during the years of conflict. Many others were tortured and maimed and lost their property. For some time the country led the world in the numbers of people “disappeared” in state custody. In an attempt to heal these wounds, compensation will be offered. A new commission will investigate abuses and “bring about reconciliation”.

Peace, however, is not yet certain. Of particular concern are continuing ceasefire violations by the Maoists. In pursuit of the larger deal, the government has so far largely winked at these. On the day the peace deal was signed, Kathmandu traffic was brought to a standstill by residents protesting against threats and demands made by junior Maoists.

A lack of discipline may be partly to blame, although offending behaviour often seems well organised. “Communicating to the lower level takes time,” the rebel leader, known as Prachanda, said recently. “When we were in the war there was not so much necessity to have a debate, so our cadres were somewhat one-sided.” Prachanda described remoulding “the whole understanding of our cadres” as the Maoists' “main problem”.

There are other headaches. The interim constitution still has to be finalised before the end of the month. Portfolios in the interim government must be squabbled over. And millions of voters need to be registered before the constituent-assembly polls next year. Foreign governments, such as America's, are queasy about seeing Maoists in government and will need reassurance. The list goes on. There will be little rest for the politicians. But it is a comfort that it is they who now have a job to do, not the men with guns.

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Tajikistan's presidential election

Mountain rigger

Nov 9th 2006 | DUSHANBE, ISFARA
From The Economist print edition

It's easier without an opposition

IT WAS more national holiday than election. There were concerts in public parks and some villagers had electricity all day instead of the usual hour or two. Voters in one cotton-farming village visited by your correspondent were rewarded with free bowls of meat and rice pilau.

On November 6th Imomali Rakhmonov surprised no one by clinching a new seven-year term as president of Tajikistan, a poor, mountainous country of 7m people, located at the strategic junction where Afghanistan, China, India and Pakistan rub up against each other. The opposition boycotted the vote, leaving the field to Mr Rakhmonov and some of his admirers. His 79% share of the vote was modest compared with the 97% he won in 1999.

Western election monitors were critical, but official Western reaction is likely to be mild. Mr Rakhmonov, once a Soviet farm boss, is part of an alliance-in-progress, providing a zone of relative stability and secular rule north of Afghanistan as well as overflight rights. More broadly, says a Western diplomat, the United States hopes to create a “corridor of reform” in Central Asia stretching from oil-rich Kazakhstan through Kyrgyzstan, host to an American airfield, into Tajikistan and on to Afghanistan and Pakistan.

Mr Rakhmonov seems to like the attention, but is keeping his options open. Inaugurating a bridge last week on the Afghan border, high in the Pamir mountains, he trumpeted plans to make his country a trade route from western China to Afghanistan and beyond, and to supply the region with hydropower. Like China, Russia, whose soldiers patrolled the Tajik-Afghan border until last year, is courting Mr Rakhmonov, dangling the prospect of big investment in hydropower and an aluminium plant. Iran, which shares almost the same language, also sees Tajikistan as a country to cosset and has helped by building a road tunnel.

So far so good for Mr Rakhmonov. First elected in 1994 during a devastating civil war that left up to 150,000 people dead, he gained kudos for helping secure a peace deal in 1997. But his administration includes a number of unsavoury civil-war-era figures. The country is mostly stable, though there has been sporadic unrest, including in the northern border area where Tajikistan meets Kyrgyzstan and Uzbekistan in a tangle of mountain passes, enclaves and landmines laid by the Uzbeks.

In May gunmen attacked border posts on the Kyrgyzstani frontier, leaving nine dead, and in September

attackers opened fire on a car carrying Tajik officials through a sliver of Kyrgyzstan near the town of Isfara. The authorities blamed an Afghanistan-based militant group, the Islamic Movement of Uzbekistan, and have also stepped up pressure on Tajikistan's Islamic Renaissance Party, the only legal Islamist party in ex-Soviet Central Asia. But the perpetrators of the attacks are as likely to have been criminals as Islamist extremists. Organised crime is flourishing thanks to an influx of heroin from Afghanistan.

There was violence in Kyrgyzstan's capital, Bishkek, this week in protests about the slowness of implementing democratic reform promised after last year's “tulip revolution”. Many Tajiks, watching on television and reminded of their civil war, found some comfort in Mr Rakhmonov. But one Western observer is not so sure. “In Bishkek it's flourishing and dynamic...It's completely static here.” Stagnation is easily confused with stability.

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Language in India

Bengalooru-ed

Nov 9th 2006 | DELHI
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The politics of English in India's IT capital

JOBS outsourced from America or Europe to India can no longer be said to have been Bangalored. The capital of the state of Karnataka, home to Wipro and Infosys among others, has changed its name to Bengalooru, following the lead set by Mumbai (Bombay), Kolkata (Calcutta) and Chennai (Madras). The city's sign-makers and cartographers are delighted; its software firms, who detect another unhelpful move from an intermittently hostile government, less so.

Across India, adopting the pronunciation of a local language is a quick way to soothe those who worry that the English language is colonising the country more thoroughly than the British ever did. But the change of name comes at a sensitive time in Karnataka, where the government recently went a step further and threatened with closure more than 2,000 private schools that taught in English, not Kannada, the local language.

Basavaraj Horatti, the education minister who implemented the decree, insists that he is not anti-English, but was merely enforcing a ruling from Karnataka's supreme court that all new private schools must teach in Kannada. The court's decision came after a dogged campaign led by fans of the late Rajkumar, a Kannada-language film star. “Dr Raj's” star appeal was such that his death this April led to riots in Bangalore.

To prove his pro-English credentials, the minister says that from this academic year Karnataka's 24,000 state schools will begin teaching English as a foreign language to children from the age of five. That will provide little comfort to the private schools affected, nor to Karnataka's other schoolchildren. The reason private schools have multiplied so fast is that the state-run ones are rotten. And unfortunately the supply of English teachers is limited, so finding enough good ones will take time.

Underlying all this is the fear that children whose parents can afford to send them to private schools will learn English, work with computers and prosper, while the rest will get left behind. U.R. Ananthamurthy, a novelist who writes in Kannada, says teaching in English has become a curse, since “people get paid more to become cyber-coolies in call centres than if they get degrees or train as nurses.” As for the coolies and their cyber-employers, both would like more lessons in English.

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Lebanon

Freeing the cedars from Western blight

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From The Economist print edition

As Hassan Nasrallah, Hizbullah's leader, may see his task

AFP

TRY concocting a cabinet from a dozen strident factions, each representing a different religious sect, many of them backed by rival foreign powers, and one, the biggest, armed to the teeth and threatening *intifada* if its demands are not met. Such is the task faced by Fouad Siniora, prime minister of Lebanon.

Haggling is not new to the famously bazaar-savvy Lebanese: the ancient Egyptian word for bargaining was “to speak like a Levantine”. But in the aftermath of this summer's brutal war with Israel, the political stakes have risen dangerously high. The 33 days of fighting, which killed 1,200 Lebanese, destroyed 15,000 homes and cost its economy some $12 billion, exacerbated stark divisions between those who envision Lebanon as a neutral and open marketplace and those who see the country as a vanguard of “resistance” to Israel and its Western supporters. Put differently, the war made clear that this small country has become a focal point in a burgeoning region-wide contest that pits America and its allies against Iran and Syria, the latter country having pulled its army out of Lebanon only last year, after a 29-year stay.

This forms one important subtext underlying Beirut's latest nail-biting drama, a conclave this week of top political bosses trying to hash out a power-sharing formula to stave off civil strife. The gathering has been cast as a make-or-break affair, with tensions raised not just by the war but by a mysterious spate of attacks on the security forces. What most immediately prompted the meeting, however, was a threat by Hizbullah to take to the streets unless Mr Siniora forms a national unity government by November 13th.

Of course, it is the Iranian-backed Shia party that sparked the devastating war with Israel. Yet Hizbullah's tenacity on the battlefield, and its speed in compensating war victims with Iranian money, have won the party sympathy far beyond its core constituency. Riding on the passions of its supporters, and casting the current government as American pawns, Hizbullah wants a bigger say for itself and its allies. Specifically, the party demands a third of the seats in Mr Siniora's 24-man cabinet. Under Lebanese rules, that is a big enough proportion to block important cabinet decisions, or, by the tactic of resigning en masse, to force the collapse of the government and fresh elections.

Since cabinet posts are allotted, by tradition, in rough proportion to sectarian numbers, and since the Shia quota is already filled with pro-Hizbullah ministers, the demand would mean replacing hostile ministers from other sects with politicians aligned to the Shia party. The obvious substitute candidates

would come from the Free Patriotic Movement, a largely Christian party headed by Michel Aoun, a former general who once headed an insurrection against Syria, and who returned from exile last year to wild acclaim from the many Christians distressed by their perceived loss of clout since the end of the 1975-90 civil war.

Having been shut out of Mr Siniora's coalition, Mr Aoun earlier this year signed a pact with Hizbullah. This has rankled with some Christians, who feel estranged by Hizbullah's brand of militant Islamism, are frightened by its arms, and remain suspicious of its ties to Syria and Iran. Yet disgruntlement with Mr Siniora's block, built of Sunni Muslim, Druze and right-wing Christian parties, runs deep among the Christian working class.

In most democracies, threatening riots to unseat a large parliamentary majority, such as Mr Siniora currently holds, would be considered outrageous. But Lebanon is far from a normal democracy. With its 18 sects, all of them minorities, its stark class divisions, and its constantly clashing world views—extremely cosmopolitan against extremely parochial—the country is a recipe for discord.

To date Mr Siniora has resisted including Mr Aoun's party, partly because its leader is seen as overly headstrong. The more pressing danger is that a bigger opposition block within the cabinet could stop what Mr Siniora, and his Western backers, view as key projects. One of these is the approval of an international tribunal to try suspects in the February 2005 assassination of Rafik Hariri, the five-times prime minister who was Mr Siniora's friend and patron. Even more tricky is the looming issue of disarming Hizbullah, as called for by the UN Security Council.

Hizbullah, obviously, would like to thwart such initiatives. It is widely believed that a UN investigation into the Hariri killing may implicate Syria, the main conduit for the party's sophisticated weaponry. And although Hizbullah has shown some flexibility over the arms question, by keeping its weaponry out of sight in the south to conform to ceasefire rules with Israel, and agreeing to discuss such possibilities as integrating its guerrillas into the Lebanese army, the party has been adamant about retaining some degree of operational control over a large arsenal.

More to the point, the party senses that its own broader regional alliance is gaining in strength as a result of Israel's lack of political direction and America's flagging influence. Now is not a moment when it is likely to concede anything, just when its founding mission of freeing Lebanon from the perceived menace of Western hegemony perhaps seems achievable.

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Iraq

How much worse can it get?

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From The Economist print edition

Three years of bloodshed may have made Saddam's fate irrelevant

Get article background

SEVERAL days before Saddam Hussein was sentenced to death for his crimes against humanity, one of his lawyers declared that executing him would “open the gates of hell” in Iraq, fanning the flames of the country's insurgency and sectarian conflict. However, the gates of Iraq's hell have been open for so long that a further opening may not matter all that much.

In the first year after the 2003 invasion, American officials and their Iraqi allies had great hopes for the special tribunal set up to try Mr Hussein and other members of his regime. It would slake the desire of the victims (mostly Shia and Kurdish) for revenge, it would convince partisans of the old order (mostly Sunni) that Saddam really was a monster worth overthrowing, and it would provide a showcase for impartial justice in the new Iraq.

The trials have met the first goal partially, the second two hardly at all. The subject of the first trial—a campaign of reprisals ordered in 1982 against Dujail, a Shia village where there was an assassination attempt against Mr Hussein at the height of the Iran-Iraq war—was chosen because it was relatively simple and well-documented. To many Sunnis, however, it looked as if Iraq's current leaders, who were Iran's allies in the war, were punishing Mr Hussein for repressing enemy activity on the home front at a time of national peril. During the trial, the defendants played on America's own spotted human-rights record in Iraq to give a spurious polish to memories of the previous regime.

As for impartial justice, it is probably too early to judge whether Mr Hussein received a fair hearing. The judges are scheduled to produce a lengthy written document explaining their verdict within the next few weeks. The court admitted into evidence several documents purporting to show that Mr Hussein had approved the brutal punishment of Dujail, whose residents were arrested and taken to a desert prison, tortured, and in the case of 148 of them sentenced to death.

The trouble is that the trial did not give the appearance of impartiality. Throughout it, leading Shia politicians including Nuri al-Maliki, the prime minister, urged a guilty verdict, and sometimes complained about the presiding judge. About a third of the way through, the first judge, Rizgar Amin, resigned because of this political pressure. In a second trial, still under way, that covers the genocide of more than 100,000 Kurds in the late 1980s, the government actually ousted the presiding judge for having made remarks deemed to be sympathetic to the defendants. Little surprise that some Sunnis dismiss the trial as “victor's justice”.

What happens now? Death sentences are supposed to be carried out 30 days after the appeals are exhausted, and the duration of the appeals process is limited. Mr Maliki has said that he expects Mr Hussein to be executed before the end of this year; others expect the earliest likely date to be February. There have been calls in the Western press for Mr Hussein to be spared in the interests of national reconciliation, but this would be politically dangerous for Mr Maliki to do, even if he wanted to.

The prime minister is constantly under attack from Shia radicals who have no interest in pleasing either the Sunnis or the Americans, and even now worry that Mr Hussein's Baath party is planning a comeback. Mr Maliki seems to be taking advantage of the boost in Shia confidence to reach out to Sunnis in other ways; the government announced the day after the verdict that it had drafted a law that would allow some of the former Baathists purged from official posts to return to public life. Mr Hussein's execution might provide other opportunities for concessions.

But it could also cause a surge in guerrilla activity. The level of attacks and estimates of insurgent numbers have been remarkably constant since April 2004. The most active groups are nominally Islamist, and will probably neither be unduly outraged nor demoralised by the execution of a leader who clearly failed to protect his country against foreign invaders.

But many Iraqis admit that they still feel an involuntary shiver of terror when Saddam appears on television, or even when his name is mentioned, so fully did he dominate the country during his three decades in power. The image of him dropping from the gallows, particularly if it is televised as many Shias demand, could cause a huge psychological jolt. Previous shocks, such as the American assault on Fallujah in April 2004, or the demolition (presumably by Sunni terrorists) of the Shias' Askariya shrine in February 2006, did indeed cause an upsurge of violence.

Three years of civil strife, anarchy, and sectarian bloodshed have so transformed Iraqi politics that the demise of a symbol of the former regime may be irrelevant. But Mr Hussein has been such a powerful presence for so long that carrying his sentence through to its grim conclusion will, like so much else in Iraq's recent history, be a dangerous leap into the dark.

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Turkey and Iraqi Kurdistan

Don't you dare

Nov 9th 2006 | SULAYMANIYAH
From The Economist print edition

A blunt warning from Turkey to Iraq's Kurdish leaders

Get article background

"WE DON'T interfere in other countries' affairs," said Abdullah Gul, Turkey's foreign minister, with bland correctness when asked to comment on the outcome of Saddam Hussein's trial. His words would have been more reassuring to Iraq's Kurds if they had not just been exposed to a rather different Mr Gul.

On November 5th, the day of the sentencing, *Hurriyet*, a leading Turkish newspaper, published an interview with Mr Gul, in which he appeared not only to pronounce on the future of Iraq but also to hint to the country's Kurds that there might be dire consequences if they proceed with their drive for greater self-determination. In unusually blunt language, Mr Gul warned them not to pursue any dream of a separate Kurdish state, to let go of their designs on the oil-rich city of Kirkuk, and to stop protecting the guerrillas of Turkey's Kurdistan Workers' Party (PKK), which has bases in the mountains of northern Iraq. "You are on the brink of a historic mistake," he thundered.

Iraq's neighbours, he said, would not stand by and watch the country being carved up. "There are those who think that dividing Iraq might be better, that this chaos might end. This is what we say: don't even think of such an alternative." He warned Iraq's Kurdish leaders, Jalal Talabani, the Iraqi president, and Massoud Barzani, the president of the Kurdistan regional government (KRG), not to rely on America's continued presence. They "should not forget that Turkey will remain in the region forever."

Turkish observers interpreted the foreign minister's remarks as primarily for domestic consumption. His ruling AK party is under pressure from nationalists because of the continuing demands being placed on it by the European Union; taking a hard stand on the Kurds may be good tactics. But the outburst flabbergasted Iraqi Kurds. One senior adviser to Mr Barzani wondered whether "the normally wise" Mr Gul had taken leave of his senses. He said that Iraq's Kurdish leaders had been striving to build bridges and that the spiky relations between the Turkish government and Messrs Barzani and Talabani were, slowly, moving in the right direction.

Political improvement may be slow but economic links between Turkey and Iraqi Kurdistan are growing exponentially. Hotels in the main cities of Arbil, Dohuk and Sulaymaniyah are packed with Turkish

businessmen haggling over deals and contracts. Petrol-tanker traffic from Turkey to the KRG area provides an economic lifeline for thousands of truckers, who hail mostly from Turkey's impoverished Kurdish south-east. Turks are also investing in the Kurds' nascent oil industry.

A KRG spokesman said that Mr Gul's remarks did not reflect reality. He said that, if asked, the majority of Iraq's 5m Kurds would undoubtedly opt for the chance to run their own affairs in an independent state. But Kurdish leaders have recognised the current impracticality of that goal and have exerted much energy in Baghdad trying to reshape Iraq into the kind of country in which they can live at ease—and that means a federal system.

So far as the PKK is concerned, the KRG spokesman pointed out that Iraq's Kurds were now taking part in formal discussions with Turkey and America to find a peaceful solution. They had played a big role in brokering the group's recent ceasefire declaration. Besides, Turkey already has a few thousand troops on Iraqi soil, monitoring the PKK's movements.

It was Mr Gul's caution over the status of Kirkuk that has most upset the Kurds. They insist that Saddam's systematic ethnic cleansing of Kurds and Turkomen from Kirkuk, which resulted in the “Arabisation” of the city must be reversed, and that the gerrymandering of Kirkuk's provincial boundaries be put right. After this has been done, they want the people of Kirkuk to choose in a referendum whether to join the Kurdish federal region. Iraq's new constitution provides for such a vote at the end of 2007. But Turkey opposes the whole process, fearing that control of Kirkuk's oil would give the Kurds an economic platform for independence. Thus, on Kirkuk at least, Mr Gul's warning is worrying.

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The Palestinians

Talking, in a way

Nov 9th 2006 | JERUSALEM
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One consequence of Beit Hanoun

AS IN Lebanon, so in Gaza. Israel's six-day military offensive into Beit Hanoun killed about 60 people, fighters and civilians, but still failed to silence the rockets fired across the border. Within hours of the army's withdrawal from the town, four home-made rockets hit a school in the Israeli port of Ashkelon though they caused no casualties. Israeli artillery struck back with a dawn barrage on Beit Hanoun, killing 19 more people, mostly from one family. Israel called off its assault in the town, but continued strikes elsewhere, killing eight Palestinians.

The severity of Israel's assault on Beit Hanoun had the unintended effect of bringing Hamas and Fatah, which last week were nervously training their gun-sights on each other, back within talking distance. The escape of guerrilla fighters from a mosque, disguised as women behind a shield of real women, entered the annals of Hamas mythology. And Palestinian national unity, at least in theory, is again on the table.

Hamas came up with a new offer to counter Fatah threats to disband the Hamas-led government. Under this, the prime minister, Ismail Haniyeh, would resign to make way for someone agreed on by both parties. This, it was argued, would allow President Mahmoud Abbas and his allies to claim that they had secured peaceful regime change.

So far so good, but not much further. Hamas proposed Bassem Naim, the health minister, as Mr Haniyeh's successor. But Fatah considered him a non-starter since he had ties to Hamas's military wing. Another source of contention was what happened to people appointed under Hamas's tenure, including a posse of ministry director-generals. More important was the future of Hamas's autonomous 5,000-plus “executive force”, a military group set up by the interior minister which now guards government and business premises.

Publicly, Israel had no time for the putative deal. The United States was more nuanced, suggesting that it might look favourably on a technocratic government blessed by Hamas. Better to have Hamas in politics than on the streets, said Condoleezza Rice, the secretary of state. But the horse-trading continued, vigorously.

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West Africa

Still a rebel's best friend

Nov 9th 2006 | KONO, MONROVIA AND SEGUELA
From The Economist print edition

The trade in conflict diamonds

AT A huge open-pit diamond mine near the rebel-occupied town of Seguela in northern Côte d'Ivoire, labourers toil under a fierce sun as a rebel soldier circles the perimeter of the pit. “We have taken over the mine to provide security,” says another rebel official, as a gang of miners looks on, bemused. Whatever the rebels' explanation for their presence at the lucrative Bobi mine, UN experts say that, in fact, mines like this one near Seguela are producing diamonds worth up to $23m that are being smuggled to Mali and Ghana, violating UN sanctions and helping to fund the rebels' war effort.

Rebel use of the mines is another setback for attempts to control the flow of “conflict” or “blood” diamonds that have helped to fund some of the bloodiest wars in Africa, and particularly in countries such as Sierra Leone and Liberia. On September 29th the World Diamond Council, an influential industry group, suggested that all Ghanaian rough-diamond exports, worth $34m last year, be suspended to ensure that Ivorian diamonds were not being illegally exported too.

Global Witness, a pressure-group, has said that the Kimberley Process, the certification procedure agreed in 2003 by 70-odd governments in partnership with the industry and some NGOs and without which countries cannot legally import or export diamonds, now risks becoming “little more than a paper-pushing exercise”. And if all this were not bad enough for the diamond industry, it is bracing itself for yet more bad publicity: the release of the film “Blood Diamond”, starring Leonardo DiCaprio as a diamond-smuggling mercenary in Sierra Leone's 1991-2002 civil war, when rebels hacked off the limbs of their victims in bloody battles to control the country's diamond-producing areas.

The self-regulating Kimberley Process has failed to interrupt the myriad diamond-trading networks that operate across the loose borders of west Africa. In Sierra Leone, for instance, official exports last year stood at about $140m, up from a paltry $1.2m in 1999. The Kimberley Process may have encouraged many diamond miners to sell to authorised dealers, but experts believe that between $30m and $160m-worth of diamonds are still smuggled out of the country each year. Meanwhile, an unknown quantity of diamonds is smuggled into Sierra Leone from neighbouring countries, for certification by the Kimberley Process.

Nor is Sierra Leone's diamond industry benefiting its people as it should. In a country where corruption was widely blamed for the onset of war, the arrest of the son of the mineral-resources minister on

suspicion of diamond-trafficking is a worrying sign. The government has resisted use of a digital-mapping system that could improve its poorly administered concession-licensing. Over 2,000 small licences, some of them fronts for government officials, go virtually unmonitored; the system seems incapable of picking out illegal dealers and agents. Meanwhile, the government collects only an estimated $7m from licences, royalties and taxes on diamonds.

While Sierra Leone struggles to control its diamond sector, neighbouring Liberia, also recovering from civil war, complains that it is being unfairly punished for its slow implementation of Kimberley Process recommendations. “This country is desperately in need of revenue and illicit mining will continue, you cannot control it completely,” says Eugene Shannon, Liberia's new minister of mines. Exploration companies claim there are significant deposits to exploit (thereby helping to replenish the government's coffers), but they must instead wait for the lifting of UN sanctions, which the Security Council has just extended. The minister's attitude annoys campaigners wanting more effective curbs on conflict diamonds. Liberia's government needs all the money it can get.

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Sudan

Contaminating the neighbours

Nov 9th 2006 | NAIROBI
From The Economist print edition

Darfur sucks in and blows out

THE violence that has devastated the western Sudanese region of Darfur is spilling over beyond its borders, with the same awful consequences. That was the clear message this week from the governments of neighbouring Chad and the Central African Republic, whose armies are now fighting on their own territory against Darfur-based rebel groups.

The enormous size of the area and the dense interweaving of clans across the borders, with tribal elders in all three countries, means that it is not always easy to tell exactly who the enemy is. But it is clear that some groups get backing from Sudan to carry out attacks inside Chad and the Central African Republic, while others receive help from Chad to fight inside Darfur. The underlying cause of conflict, however, is often the same. As in Darfur, it is a fight for increasingly scarce resources, including water and land to graze animals. And the result is equally obvious; more killing, and more displaced people.

The wretchedly poor Central African Republic is the latest country to be affected. On November 3rd rebels intent on toppling the president, François Bozize, took the town of Birao, near the border with Darfur (see the map below). The rebels appear to have been operating out of Darfur, possibly with Sudanese help. They are too far away from Bangui, the capital, to be a threat to Mr Bozize yet, but their push adds to the region's instability. Another 45,000 people have fled the fighting to refugee camps in Chad, adding to the 3m refugees who the UN estimates are now either in Darfur itself or in eastern Chad.

The situation is more serious in Chad. Fighting along its border with Darfur threatens the country's stability. Relations between the Chadian and Sudanese governments, which have traditionally ranged between the shrill and the hysterical, are now bellicose. Chad accuses Sudan of bombing its towns and of “exporting the genocide” from Darfur. Sudan denies both charges, but it is indeed probably offering material support to some of Chad's rebels: a recent ambush by Sudanese-backed fighters killed the Chadian army's second-in-command. The rebels themselves are united only by their determination to get rid of President Idriss Déby. But aid workers think that they may have enlisted the support of the *janjaweed* militia that the Sudanese government has used as proxy fighters to slaughter thousands of civilians in Darfur. During the past month hundreds of people have reportedly been killed by *janjaweed* attacks inside Chad.

Infographics

Mr Déby only just managed to cling to power earlier this year after surviving defections from his army to the rebels and a surprise attack on his capital. France, the former colonial power, has some reason to turn a blind eye to what goes on in one of the most corrupt countries in the world. It uses Chad's capacious airspace to train its fighter pilots and maintains a military presence in the east, offering some protection to exposed aid workers there and armed comfort to the regime.

Perhaps rightly, France fears that the only alternative to Mr Déby is chaos. America is more circumspect. It has oil interests in Chad and has invested heavily in resolving the conflict in Darfur; it is more optimistic that Chad could find a better leader than Mr Déby. But as in Sudan, it could be China, which is in the process of negotiating Chadian oil concessions in exchange for promises of aid, investment and possibly arms, that might yet have the most decisive influence on whether Mr Déby stays or goes.

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Turkey and Europe

Pulling the rug out from under?

Nov 9th 2006 | ANKARA AND ISTANBUL
From The Economist print edition

Another European Commission report, another crisis in the European Union's relations with Turkey

Get article background

“THE reform demands of the great powers never end.” So wrote Abulhamid II, a sultan who ruled the Ottoman empire in its dying days. This belief, shared by millions of citizens of modern Turkey, will have been strengthened by the European Commission's latest progress report on Turkey's membership, unveiled in Brussels on November 8th.

The document may not lead instantly to a “train wreck”, the term coined by the European Union's enlargement commissioner, Olli Rehn, for a decision to suspend EU membership talks with Turkey. But it leaves the threat on the table unless Turkey meets EU demands to open its ports and airports to Greek-Cypriot ships and aircraft by mid-December, when European leaders hold a summit in Brussels.

Scrambling to avert a complete breach, Turkey's moderate Islamist prime minister, Recep Tayyip Erdogan, hinted on November 6th that he might amend (but not scrap) the infamous article 301 of the penal code that has allowed the prosecution of scores of Turkish academics and writers on charges of “insulting Turkishess”. The law was harshly criticised in the commission's report, as was continued repression of non-Muslim minorities and Kurds, and inadequate civilian control over meddlesome generals. Indeed, praise for Turkey's broader reforms was noticeable chiefly by its absence.

Despite the looming crunch in December there are few signs that Mr Erdogan will budge on Cyprus. Even as the report was being published, he repeated that, so long as the economic isolation of Turkish-occupied northern Cyprus continues, there can be no change in Turkish policy. He added that a solution to Cyprus could be reached only through United Nations mediation. This seems to brush aside last-ditch attempts by Finland, which currently holds the EU presidency, to forge a compromise deal before the summit.

Such a hardline stance provides fodder for Turkey's detractors. Chief among these is France, whose foreign minister, Philippe Douste-Blazy, told the French parliament this week that the timetable for Turkey's membership talks should be “rethought” unless it recognised Cyprus by the end of the year. The German chancellor, Angela Merkel, also declared that, if Turkey refused to shift on Cyprus, the situation would be “very, very serious”.

So are Turkey's hopes of becoming the EU's first mainly Muslim member buried for good? Turkish and European officials have long acknowledged that the negotiations may never lead to actual membership. But both sides have stressed the importance of maintaining the process, as the best way of fortifying Turkey's wobbly democracy, keeping it on the path of reform and anchoring it firmly to the West.

Yet these goals are starting to look shaky. Some pundits say that the membership talks, launched a year ago, have in effect ground to a halt already. Only one of the 33 “chapters” that Turkey must negotiate with the EU (on science and technology) has been closed. Turkish intransigence over Cyprus could prompt the Greek-Cypriots to wield their veto at any moment to block talks on other chapters.

Some diplomats in Ankara blithely play down the latest crisis as a mere “time out” that may help European leaders to win over domestic public opinion, which is hostile to Turkish membership, and also let Mr Erdogan court nationalist votes ahead of a parliamentary election next November. Once the election is out of the way, the argument runs, a new government will pick up the EU baton once again. Yet this is a risky strategy.

The prickly nationalism that has engulfed Turkey has sapped support for EU membership. One poll suggests that it is down to a low of 32%, compared with 67% two years ago. At the same time, damping the hopes of 14m Turkish Kurds for a better deal as citizens of an EU member might lead some to shift their gaze longingly over the south-eastern border. There, under American protection, the Iraqi Kurds have achieved near-independence, much to the annoyance of Turkey (see article). A pause in the EU process might also tempt Turkey's generals to try to reclaim the power they have lost in a wave of EU-inspired reforms. And it could threaten the economic growth of recent years.

So long as Mr Erdogan displays the right kind of leadership, such doomsday scenarios can still be avoided. Encouragingly, he declared this week that, despite the ructions over Cyprus, his government remained committed to full membership of the EU. But he is also considering his own future, and especially whether to run for president when the incumbent, Ahmet Necdet Sezer, retires in May. The lure of the country's top post may prove irresistible to a man whose first job as a teenager was selling stale buns to help his family get by.

General Yasar Buyukanit, the hawkish chief of the general staff, and most pro-secularists among Turkey's business elite think this is a dreadful idea. For them the presidency is the last secular check on Mr Erdogan and his fellow Islamists in the ruling AK party. Upsetting this delicate balance could, they fear, spell an end to Ataturk's secular republic.

Such fears are surely exaggerated. But even some of Mr Erdogan's closest allies agree that the country would be better served by a more neutral figure, whose spouse does not wear the Islamic headscarf. This would allow the AK party to win re-election in November, keep the generals at bay and let Mr Erdogan press ahead with his reforms. He would also need to avoid pre-electoral populism and stick with the IMF's austerity programme.

Speculation that, if spurned by Europe, Turkey would embrace the likes of Iran and Russia is so far proving wrong. Indeed, Mr Erdogan and the top brass are competing to repair Turkey's strategic relationship with its strongest ally, America. General Buyukanit is expected to travel to Washington in February, where he will press the Americans to act against separatist PKK Kurdish guerrillas based in northern Iraq. America's refusal to drive out the rebels, who have been fighting the Turkish army for more than two decades, is the biggest source of anti-American feeling in Turkey.

It remains unclear whether the Bush administration can respond positively to such demands, though it may be easier with a new defence secretary in place of Donald Rumsfeld. What is certain is that America will continue to lobby for Turkey's EU membership. American pressure has played a crucial role in keeping Turkey's EU aspirations on track. It may prove just as necessary in future.

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Turkish customs

Drop the dead donkeys

Nov 9th 2006 | MARDIN
From The Economist print edition

Can Europe ride to the rescue of Mardin's donkeys?

EVERY day at sunrise the clip-clop of hooves echoes through the ancient town of Mardin, overlooking the Mesopotamian plain towards Syria. A pace of donkeys fans out in different directions.

For centuries, the asses have served as Mardin's rubbish collectors, penetrating streets so narrow and steep that no car, let alone a dustcart, can squeeze through. Carrying loads of up to 70kg (150lb) in rusting metal containers strapped to their sides, the donkeys are “the lungs of Mardin”, says Ali Babayigit, one of 80 municipal workers who use them. “Without them we would be dropping like flies from disease.”

The donkeys' task gets more vital as more visitors come to see Mardin's exquisitely carved stone houses, *madrassas* and churches. All are being restored (some to be converted into boutique hotels) after decades of neglect. They were built by ancestors of the town's 70,000-strong population of Arabs, Christians, Kurds and Turks, who live together untouched by any clash of civilisations.

More tourists means more rubbish—and more donkeys to keep the town clean. But local officials have no room for them. Conditions in the tiny stable where some 42 donkeys live are appalling: the floor is carpeted with dung, the air fetid, there is no grazing. When they are no longer fit to work, some are let loose in nearby fields. More often, they are said to end up as *sucuk*, a spicy garlic sausage produced under the counter by butchers from the province of Urfa, who spirit Mardin's donkeys away.

Mardin's cash-strapped mayor, Metin Pamukcu, is looking optimistically to the European Union as a source of cash to buy land for new stables and grazing grounds. But even if he were to apply, penetrating the Brussels bureaucracy is a task that takes donkey's years.

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Other EU candidates

A very long engagement

Nov 9th 2006 | BRUSSELS
From The Economist print edition

The European Union's enlargement to the Balkans continues, albeit slowly

THE prospect of a train wreck over Turkey has drawn attention from others heading hopefully towards the European Union. The European Commission this week reported on two official candidates, Croatia and Macedonia, and assessed progress in Albania, Bosnia, Montenegro and Serbia. Olli Rehn, the enlargement commissioner, said all were on track, but added that it is “no bullet train, no Eurostar, no TGV...it is a slow, slow train”.

Yet these smaller fry have been getting more positive signals than has Turkey. Earlier this year, European foreign ministers repeated a pledge that all Balkan countries had a future in the European Union. Even so, the promise came with a caveat: that the speed of enlargement must take account of the EU's “absorption capacity”.

The commission report tries to allay fears on both sides. It says firmly that the EU must not renege on its promise. Countries will also be given more money to help them on their way: over the next three years, Croatia will get around €436m ($560m) and Macedonia €210m. But the commission also wants to show that its support is not unconditional. It says both Croatia and Macedonia must do more to tackle corruption. Many in Brussels think the EU let in Bulgaria and Romania, which will join in January, prematurely. The commission report reflects on “lessons learnt” from Bulgaria and Romania about the importance of tackling corruption and judicial reform at an early stage.

The commission also discusses the preparedness of the EU for further expansion. Mr Rehn admits that the EU's “integration capacity” (the newly approved jargon to replace “absorption capacity”) must be considered. He also repeats that there should be no more expansion without institutional reforms, implying a fresh debate on the EU constitution.

Croatia and Macedonia have had to lower their expectations. Croatia had hoped to join in 2009, but that looks optimistic. Macedonia has yet to start negotiations. Last month Antonio Milososki, the Macedonian foreign minister, suggested that his country could join in 2012-13. But commission officials say this is unrealistic. It could take two more years before Macedonia even begins membership talks.

The risk in this lengthy journey is that the EU gets distracted and the candidates demotivated. More than the western Balkans and Turkey are at stake: watching in the wings are other would-be applicants, from Ukraine to the Caucasus.

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The French presidency

Royal regress

Nov 9th 2006 | PARIS
From The Economist print edition

The outcome of next week's Socialist vote seems less sure than it was

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IN THE past, French political parties have picked their presidential candidates in smoky backrooms. But for the election on April 22nd next year, the mainstream left and right have both opted for an American-style primary, with a vote of party members. The centre-right UMP, whose likely candidate is Nicolas Sarkozy, votes in January. The Socialists will choose one of Ségolène Royal, Dominique Strauss-Kahn or Laurent Fabius as their nominee on November 16th (with a possible second round on November 23rd).

Reuters

Frontrunner and suits

Six weeks ago Ms Royal was the runaway favourite, with 66% backing among Socialist voters against just 27% for Mr Strauss-Kahn, and a miserable 7% for Mr Fabius, according to OpinionWay, a pollster. Since then three live televised debates and three internal party debates have tested her support. And Ms Royal's popularity has started to ebb, whereas that of both Mr Strauss-Kahn and Mr Fabius has edged up. Could Ms Royal, the darling of the polls, now lose the nomination?

All such predictions are perilous. Opinion polls reflect the preferences of all Socialist voters, not of party members alone. The support of some 70,000 new members, many of whom joined online earlier this year, remains untested. Moreover, polling sample sizes are small: the most recent Ipsos poll, for instance, is based on a mere 486 responses.

Yet Ms Royal, who is president of the Poitou-Charentes region, has certainly not looked assured in the debates. Mr Fabius, a tax-cutting former prime minister who has positioned himself (however improbably) as champion of the hard-left anti-globalisation lobby, has had a fierier presence. Mr Strauss-Kahn, a moderate former finance minister, has come across as a safer pair of hands. Ms Royal, by contrast, has at times sounded strained and stern. She was even booed during one public meeting, an event that her supporters say was staged.

Ms Royal has punctuated her performances with some bizarre suggestions and evasions. One idea was that members of parliament should be made answerable to “citizens' juries”. Another was her policy on Turkish membership of the European Union: “My opinion”, she said, “is that of the French people”. Yet the idea that any of this may puncture Ms Royal's candidacy is far-fetched.

Her lead remains big. After this week's debate, OpinionWay put her at 58%, next to 36% for Mr Strauss-

Kahn and 6% for Mr Fabius. Mr Strauss-Kahn's support is concentrated among city-dwelling, well-educated voters; hers is more broadly based. The Paris elite may sneer when she talks of letting the people decide, but such openness goes down well with voters who are disillusioned with all politicians. Jack Lang, a former culture minister who gave up his own presidential bid but remains popular with the young, has rallied behind Ms Royal on the ground that she is “the only one who could beat the right”.

For the Royal camp the big question is whether she can win on the first round. One Socialist predicts that, despite her recent faltering, she will get just enough, at 52%. If she fell short, her supporters fear, her campaign could lose momentum before the run-off—particularly if her two rivals agreed to back each other. Presumably this is what François Hollande, the party's first secretary (who happens to be Ms Royal's partner), had in mind when he urged Socialists to make sure that the first-round result was “incontestable”.

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The Dutch election

Harry Potter revived

Nov 9th 2006 | AMSTERDAM
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An unexpected turnaround in the fortunes of Jan Peter Balkenende

A FEW months ago Dutch voters seemed ready to dump their centre-right government in the election on November 22nd. Worries over immigration and Islam, a sluggish economy and a spate of unpopular reforms led to a big Labour win in local elections in March. The Labour leader, Wouter Bos, seemed destined to be prime minister. Yet Jan Peter Balkenende's Christian Democrats now lead in the polls. With their VVD (Liberal) partner, they are now predicted to be just shy of a majority.

Part of the explanation for the turnaround is an improvement in the economy. Growth has picked up sharply, to 2.8% this year; disposable incomes have risen; and the labour market is lively again, with unemployment down to only 5.6%. More voters are coming to see that this reflects not just a broader European recovery, but also, in part, the government's reforms.

Over the past four years, the government of Mr Balkenende, an ex-professor nicknamed Harry Potter, has reshaped and trimmed the generous welfare state. It has scrapped incentives for early retirement, reduced welfare benefits and introduced more competition in health care. The reforms may have been aimed mainly at putting the Dutch fiscal house in order, but they have helped the economy as well.

Another explanation for the Christian Democrats' revival is Labour's self-inflicted wounds. Mr Bos kicked off his campaign with a promise to resolve a looming pensions crisis by imposing higher taxes on richer pensioners. After an outcry, including from his own backbenchers, Mr Bos changed his plan, lowering the tax rate and increasing the pension bracket to be taxed. “Flexibility”, Mr Bos dubbed it, but it was all the government needed to term him an untrustworthy opportunist.

Mr Bos has also lost immigrant votes by following the lead of the Christian Democrats in removing from his party list any ethnic Turkish candidates who denied the Armenian genocide of 1915. The Christian Democrats, as champions of the white middle-class, could afford to take such a stand. But Labour has tried hard to gain support among immigrants at a time of growing anti-immigrant feeling after the 2004 murder by a Muslim fanatic of Theo van Gogh, a film-maker who was rude about Islam. Turkish activists are now campaigning for the tiny D66 party, which walked out of Mr Balkenende's coalition in the summer, triggering the election.

Strangely, perhaps, immigration and Islam—the issues that have dominated Dutch political life ever since 2002, when the populist Pim Fortuyn was assassinated—have been conspicuously absent from the election debate. This is not to say that anti-immigrant sentiment has disappeared. On the contrary, it has become mainstream: all parties now advocate stricter curbs on immigration and demand better integration. “Immigration politics has been a great success: immigration has diminished,” says Mark Rutte, leader of the VVD. His party is best placed to pick up anti-immigrant votes. Rita Verdonk, the abrasive immigration minister, is a leading VVD light (indeed, she stood against Mr Rutte for the party leadership).

The election may not produce a quick result. Dutch governments are coalitions, and the real battle often starts only once the votes are in. The Christian Democrats and the VVD say they want to stay together after the election. They may have to lure in a small, fast-growing Calvinist party, the Christian Union, but its relationship with the VVD is testy. A coalition between Labour and the Christian Democrats is also possible. Mr Bos has even hinted that he might seek an all-left majority with the Greens and the Socialists.

After a turbulent four years, including not just two political murders but a string of slightly different governments and the voters' rejection of the European Union constitution, the Dutch would like a period

of calm. That may boost their Harry Potter—but only if there are no more scary confrontations with dark forces.

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German inequality

Class concerns

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From The Economist print edition

Proud to be bourgeois, as poverty spreads

A SPECTRE is haunting Germany—and it is not communism. The country is no longer the equitable middle-class society of its dreams. Rising inequality has led to two debates: one about bourgeois values, the other about an underclass. The first has long simmered. The second is causing a stir reminiscent of last year's “locust” debate over foreign investors.

The debate about new bourgeois values (*Neue Bürgerlichkeit*) seems like one of those overly intellectual games often played in the cultural pages of Germany's dailies. Last year editors found certain activities, long sneered at as hopelessly bourgeois, back in fashion: nice clothes, Latin lessons, private schools. At the same time, politicians began calling for more self-reliance. A widely read book, “The Culture of Freedom” by Udo di Fabio, a judge on the constitutional court, even called for a new bourgeois era.

After the second world war, *Bürgerlichkeit* had “no place in Germany's social and political topography”, argues Jens Hacke, a historian at Berlin's Humboldt University. Political scientists who saw themselves in this tradition were irredeemably outdated. Even in the early 1990s, the term bourgeois was an insult. Today, many younger Germans have no problem with it—not least because they want to distance themselves from the rebellious 1968 generation.

The shift also reflects economic change. It is a response to the “end of the illusion of the welfare state”, says Manfred Hettling, a historian at Halle University. Civic engagement is on the increase: more than a third of Germans now do voluntary work. Many are rich enough to afford such traditionally bourgeois pastimes as creating charitable foundations.

By contrast, the debate about the new underclass began as an economic and social one. Last month Kurt Beck, the Social Democrats' leader, used the word in an interview. A few days later the party's think-tank published a study concluding that 8% of Germans now belong to a group that the authors labelled “lost in precariousness”—low-skilled, often jobless and with little prospect of ever moving up.

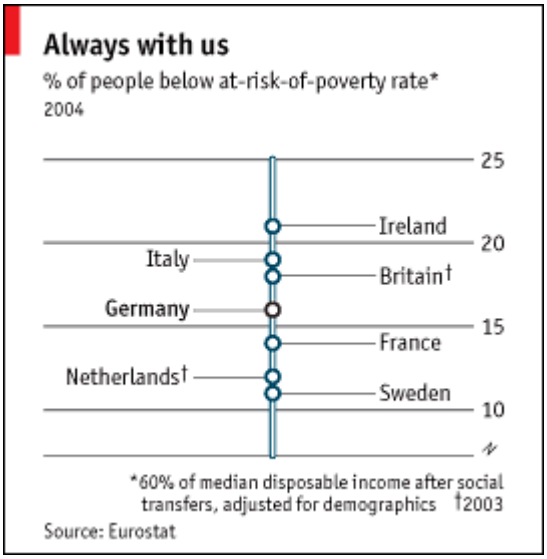
As in many rich countries, poverty is growing. In 2004 some 16% of Germans were poor, defined as having disposable income less then 60% of the national median after social transfers—a sharp rise from 2000. This is around the European average (see chart), but German poverty was once well below that average. Admittedly the figure is inflated by the effect of unification. Poverty in the east is at a British-style 20%—a level also reached among the young and immigrants.

As this suggests, it is appropriate to talk of a new underclass, even if some say the word is discriminatory. Yet more than material want, it is a growing cultural gap that most troubles Paul Nolte, a historian at Berlin's Free University. Today's proletarians, he says, no longer want to move up, as they did in the past. On the contrary, their lifestyles increasingly separate them from the mainstream: lots of fast food, alcohol, trash television and large tattoos.

Both debates have followed a predictable trajectory. The discussion of bourgeois values is now dominated by two books hostile to the legacy of the 1968 generation. One, by a female television presenter, Eva Herman, argues that women should stay home to care for the children; the other, by a boarding-school principal, Bernhard Bueb, extols the virtues of old-

fashioned discipline. On the left, many blame rising poverty on labour-market and welfare reforms. They want to reinstate generous benefits instead.

Yet there are also more forward-looking contributions. Humboldt's Mr Hacke says that bourgeois values can help to hold society together when the self-correcting powers of markets do not suffice. So there is a case for incentives to encourage civic engagement. And Mr Beck has suggested that the problem with the new underclass is not poverty itself, but rather a lack of social mobility, created in part by the country's selective school system.



The question is whether these debates will move beyond mere talk. Germany has taken a few steps, such as making it easier to create foundations and starting the long haul of reforming its schools. But perhaps discussion of new bourgeois values and rising poverty might embolden Germany's fractious coalition leaders to be bolder reformers, in the interests of reigniting the economy and reducing unemployment. Otherwise a divided society could turn into a deeply unhappy one.

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Charlemagne

Single market blues

Nov 9th 2006
From The Economist print edition

Attitudes to the single market are changing, perhaps for the worse

WHAT do the following have in common: the biggest piece of European Union legislation in years; a renewed attempt to enforce a maximum working week across Europe; and a recent opinion poll suggesting that a majority of businessmen in Britain think the cost of EU rules exceeds the benefit? The answer is that they all reflect changing attitudes towards Europe's single market, and different philosophies about what it is for.

Enforcing the single market is perhaps the most important, and most visible, thing that the union does. The competition and single-market commissioners have the power to tell national governments that they may not subsidise or manage companies. They can break up monopolies, intervene to lower prices and, to judge from the squealing in capitals, manage to annoy more national politicians than any of their colleagues.

But the single market means different things to different people. To the British, it is about removing non-tariff barriers to trade so as to create a market in which companies can compete. Theirs is a classic free-market position; it stresses deregulation and economic efficiency. This is a view held not only by the British, but also by the Irish, the Dutch, the Scandinavians and most new members from central Europe. It is also shared by most, though not all, European commissioners.

But it is not the only view. To many continental Europeans, the single market is not about free but about “fair” trade. Indeed, it is not primarily about trade at all, but rather about regulation and integration. Historically, the single market was pushed forward most in the 1980s by Jacques Delors, a French socialist, who saw it mainly as a step towards closer political union.

On this basis, the single market is not meant to be a competitive, deregulated one, but one that is united by regulatory standards and common levels of social protection. Under the rubric of the single market continental politicians have pushed for a single currency, harmonised tax bases and more fiscal co-ordination. None of these is strictly necessary for a single market to work. But they make sense if the single market is a route towards deeper integration—as France, Italy, Germany (frequently) and many eurocrats in Brussels believe it to be. The industry commissioner, Günter Verheugen, puts it succinctly: “These people think more laws means more Europe.”

For years, the two approaches have managed to rub along. Although Mr Delors was the commission

president at the creation, the details of the single market were mostly worked out by a British commissioner chosen by Margaret Thatcher, Lord Cockfield. Sometimes it was the Delors view that prevailed, sometimes it was the Thatcherite one.

It may come as a surprise to Eurosceptics, but over the past few years the British view has been in the ascendant. When he arrived, the current commission president, José Manuel Barroso, said that the "Lisbon agenda" of economic reform would be his top priority, rather than some grand institutional leap such as the European constitution (although he wanted that too). His presidency has initiated fewer new laws than his predecessors. His competition directorate has poked its nose into new areas such as energy cartels and mobile-phone tariffs. Mr Barroso has often promised to cut the endless Brussels red tape.

Yet the early period of the Barroso commission may prove to have been a high-water mark in the British version of the single market. The past few months have seen a continental reaction gaining pace.

The biggest regulatory behemoth to appear for years, called REACH, is about to get its final clearance from the European Parliament. This monster, born before the Barroso commission came in, will impose a slew of costly new rules on the chemical industry. Few of the pointless regulations that Mr Barroso has slated for abolition have actually been cut. And Mr Barroso has himself championed an EU-wide fund to compensate workers who have lost their jobs because of globalisation (arguably, that could apply to anybody who loses their job).

Whistle while you don't work

Britain is also still under pressure from its partners to drop its opt-out from an EU directive imposing a maximum 48-hour working week. It fended off one such effort at this week's meeting of employment ministers, but the French, Italians and Spaniards will persist. When Europe is losing market share to harder-working Asians and Americans, it seems mad to stop the few people who want to work long hours from doing so. There is a similar hostility to workers from the east. Earlier this year a Danish carpenter, noting that Polish carpenters can do the same job for a quarter of the price, said bluntly that was "not the kind of competition we want in Europe".

Worse, the benefits of the single market seem surprisingly modest to many. And Mr Verheugen himself has put the cost of complying with EU regulations at as much as €600 billion a year. No wonder a recent poll of British businessmen found a majority claiming to believe that the costs of regulation outweigh the benefits of the single market.

It is fair to concede that there are doubts about all cost-benefit calculations applied to regulation. The EU is more than just a single market; there are many other benefits to membership. Regulation is bound to cost money—if it did not, it would not serve its presumed purpose. If EU red tape did not exist, much of it would be reinvented at national level. (Some national regulatory regimes might be more onerous than EU ones, although others would surely be lighter.) It is also true that deregulatory zeal is still alive in parts of the commission.

Still, it is plain that the benefits of the single market have been less than enthusiasts hoped, and the costs may have been bigger. And, to judge by the changing climate of opinion about the single market, few people are ready to do anything about this.

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Financing universities

Mendicant scholars

Nov 9th 2006
From The Economist print edition

An arcane dispute at Oxford brings the financial strains in higher education into sharp relief. The reformers deserve support

Get article background

WHEN John Hood became vice-chancellor of Oxford University in October 2004, it was a sign that at least some of the institution's senior staff recognised that wisdom might occasionally be found beyond its walls. The New Zealander was the first outsider to be given the top post in Oxford's 900-year history, and his CV—a clutch of industrial jobs and a spell as vice-chancellor shaking up the finances of the University of Auckland—were a warning to traditionalists to watch out.

The old guard soon went head to head with their new boss, and they won the first round. Just eight months into Mr Hood's tenure, a row over performance reviews for academics led to his defeat in Congregation, the 3,773-strong “dons’ parliament” that is the university's highest authority.

Two years into the job, Mr Hood is still struggling, and this time the stakes are higher. On November 14th Congregation will consider his plans to replace the university's council—a single body of dons with responsibility for matters both learned and financial—with separate academic and financial boards, the second of which will have a slim majority drawn from outside the university. The debate in the Sheldonian Theatre will be rancorous, though the plans have been watered down in response to earlier criticism. A postal vote may follow and, if Mr Hood is defeated, he may well resign.

Mr Hood's critics charge that allowing outsiders a say in governance for the first time will destroy what makes Oxford special. Its direct democracy and unwieldy yet charming collegiate structure would face death at the hands of heartless men in business suits, parachuted in six times a year to yea-say the vice-chancellor at board meetings. “None of this governance tosh is of any significance,” says David Palfreyman, the bursar of New College. “It's just control freakery.”

Supporters argue that the proposals will simplify decision-making. This should make academics' lives easier, as well as persuade potential donors that the university is properly run. Liora Lazarus, a fellow of St Anne's College, was involved in drafting the plans. At the moment, she says, no one knows whether a discussion has been finished and a decision reached.

Andrew Dilnot, principal of St Hugh's College, is part of a group looking for ways to share research money—almost all of which now goes to departments—with colleges, thus giving the latter more

incentive to appoint first-rate researchers. That sounds reasonable but some dons, primed to see conspiracies, suspect a plot to make the rich colleges which already do this even richer, at the expense of poorer ones that can't afford to. A perception that Mr Hood has been disrespectful of Oxford's traditions may make other reforms harder.

Oxford's difficulties are unique. At Cambridge, the only other university with a similarly complicated collegiate structure, the emollient vice-chancellor, Alison Richard, has persuaded colleges, departments and the central administration to work together reasonably amicably. But if Mr Hood is willing to risk his job it is because he thinks reform is essential if Oxford is to attract the cash to compete internationally for the brightest students and best researchers. And this is a problem that faces each of Britain's better universities.

British academics are, to an extent that those who work in mere private enterprise cannot imagine, obsessed with money. Partly this is because there is never enough: a huge government-mandated expansion in student numbers since the 1960s has not seen a matching rise in funding. It is also because university finances are fiendishly complicated. Cross-subsidies are common: research grants don't cover overheads and can require matching funding to trigger them; overseas students are charged more to make good losses on teaching Britons; pricey masters' degrees pay for undercharged undergraduates.

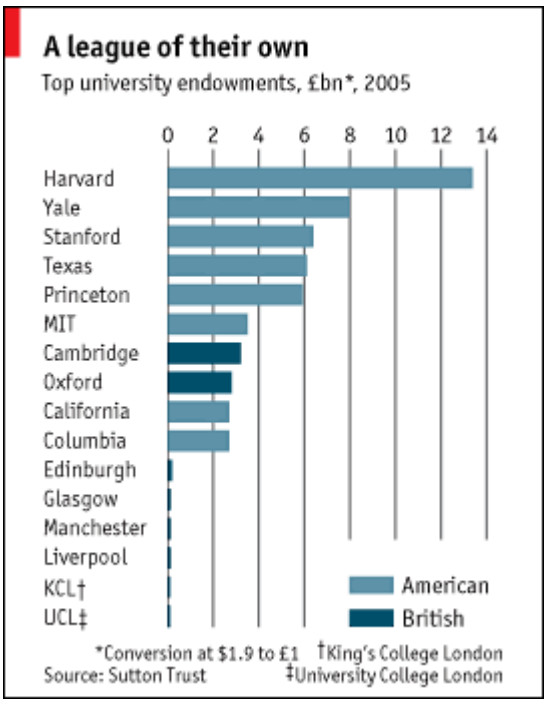
Leading British academics earn around half of what their counterparts in America get. Their teaching loads are heavier and their administrative tasks more arduous. The £3,000 ($5,710) a year cap on tuition fees for home students does not begin to cover costs: Oxford reckons it spends £13,000 a year teaching each undergraduate, leaving a shortfall of £5,000 even after government subsidies. The cap is due for review in 2008, but universities are unlikely to get a big increase unless they offer poorer undergraduates large bursaries.

So it is astounding that Cambridge and Oxford are still ranked among the world's best universities, at least according to the *Times Higher Education Supplement*, which puts them just behind Harvard. But high-flying British students are beginning to look across the Atlantic.

On November 7th Wellington, a leading private school, held a conference on getting into American universities. The dean of admissions at Princeton, Janet Rapelye, told the conference that a year ago Princeton had had 61 applications from British students and had accepted three; this year those figures were 100 and 11. “American universities look attractive in comparison with Oxbridge, especially their means-tested bursaries,” says Anthony Seldon, Wellington's headmaster.

Filthy lucre

Those bursaries are possible only because many American universities have big endowments (see table)—which also allow them to lure the world's best academics. Sir Peter Lampl, founder of an educational charity, points out that fewer than 10% of Oxford's alumni contribute to their university or college, compared with 61% of Princeton's and 45% of Harvard's. Most British universities do no fundraising at all.



Britons will probably never be as generous as Americans; they are too used to the idea that higher education is the responsibility of government and they do not get the tax write-off for charitable giving that Americans do. But Cambridge and Oxford, at least, are trying. Last year Cambridge launched an appeal to raise £1 billion by 2012; donations have already reached £300m. Last autumn Oxford recruited Jon Dellandrea, a Canadian fundraiser with a prodigious reputation. It is expected to launch its own appeal soon.

Oxford also wants to earn better returns on the money it already has. In 2005 a group led by Sir Alan Budd, provost of Queen's College, prepared a report on investment strategies, in response to which the university's investment committee is being reformed. Inevitably, the details of this reform are still under discussion.

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About sponsorship

Terrorism

No noble cause

Nov 9th 2006
From The Economist print edition

Was this really Britain's most dangerous terrorist?

AFP

Mr Barot goes up the river

IT SOUNDED almost as bad as the September 11th terrorist attacks against America. “This,” Judge Neil Butterfield solemnly intoned as he sentenced Dhiren Barot to at least 40 years in prison, “was no noble cause. Your plans were to bring indiscriminate carnage, bloodshed and butchery first in Washington, New York and Newark, and thereafter the UK on a colossal and unprecedented scale.”

The police are jubilant at having put Mr Barot away. There was “a wealth of evidence” that he was “a very important al-Qaeda figure”, said Peter Clarke, who heads anti-terrorist operations at Scotland Yard. Intelligence leaders worry that Britain is now al-Qaeda's main target. A record 34 terrorist cases involving 99 defendants are now awaiting trial, with a further 70 cases under investigation.

Mr Barot pleaded guilty to conspiracy to commit mass murder in America and Britain between 2000 and 2004. As with many other Islamist terrorists, his profile set off no warning bells: he was neither poor, nor spurned, nor uneducated. Born in Gujarat to a middle-class Hindu family, he was brought up in a comfortable home in north-west London. He passed a few GCSE exams at school, got a qualification in tourism and worked as a ticket clerk for Air Malta in London. So far, so ordinary.

It was after meeting Abu Hamza, a radical Muslim cleric who is now serving a seven-year sentence for inciting murder and racial hatred, that Mr Barot converted to Islam, in 1991. He put in time at terrorist training camps in Pakistan and the Philippines, and then began plotting his attacks.

He aimed first at America, where his targets included the IMF and World Bank buildings in Washington, DC and the New York Stock Exchange. Later, he planned to use stretch limousines, packed with gas cylinders and radioactive “dirty bombs”, to blow up hotels, railway stations and Tube trains under the Thames. He was said to be just weeks away from executing his plans when he was arrested in London in August 2004, after an intelligence tip-off.

Yet there is something a little strange about the case. Although a mass of data was discovered on computer hard drives, no weapons or explosives were found. There is no trace of al-Qaeda cash, except for the fact that Mr Barot survived for a decade, largely unemployed, without state aid. It is not absolutely sure that he or the people he was dealing with in Pakistan had links with al-Qaeda. And not once in his ten years as a terrorist did he ever carry out an attack. But he has just been given one of the toughest sentences, save for the very worst murders, handed down in modern times by a British court.

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About sponsorship

Business taxation

Bill and Ben and Gordon

Nov 9th 2006
From The Economist print edition

Why a good global score offers Mr Brown little comfort

WHEN Nigel Lawson, a Conservative chancellor of the exchequer, yanked down the corporation-tax rate in the mid-1980s, Britain won a reputation as a favourable tax location for business. This fame survived Gordon Brown's early tax raids on companies, but it has been increasingly undermined in recent years as the Labour chancellor has continued to shake down firms for extra revenues. Other countries, in contrast, have cut their rates of corporate-income tax and sought to become more hospitable locations for businesses.

Worries about Britain's loss of tax competitiveness flared up recently when HSBC, a bank based in London, hinted that it might move its headquarters to another country because of tax. On October 9th Richard Lambert, director-general of the Confederation of British Industry, said that current corporation-tax levels were unsustainable. He gave warning that Britain risked a “trickle” of business departures turning into a “flood”.

A ranking published on November 7th by the World Bank and PWC, an accountancy firm, suggests at first sight that the scare has been overdone. Britain scored 12th out of 175 economies, according to a composite index measuring the overall ease of paying the taxes levied on a typical company. Among other European economies, Ireland and Switzerland did better but Germany and France came a long way behind, with scores of 73 and 92 respectively. America ranked 63rd.

Unfortunately, Britain's apparently favourable rating is less impressive when inspected more closely. It emerges as a simple average of three components in the index: the total business-tax take in relation to profits, the number of payments and the time it takes to comply with tax regulations. Britain does well overall, says Caralee McLiesh of the World Bank, mainly because a typical firm has to make few payments and the compliance burden is relatively light. America's poorer score owes much to the length of time it takes to deal with taxes.

Britain may deserve its ranking if the experience of only the standard company on which the calculations are based across the 175 economies—quixotically, a flowerpot manufacturer producing for the domestic market—is examined. The rating does not capture the complexity of tax for many businesses, however. Complying with value-added tax is fairly straightforward for a manufacturing company selling at home. It is much more complicated for a bank making cross-border trades, points out John Whiting of PwC.

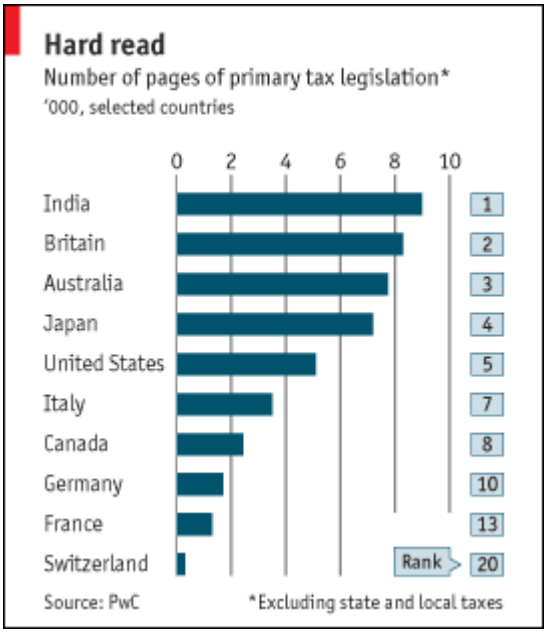
The growing complexity of the tax system is one of large firms' main complaints. On a basic yet telling measure, Britain does badly in another recent study by PwC. Of the world's 20 biggest economies, Britain is second only to India in the number of pages taken up by its primary tax legislation (see chart).

The way in which this measure is calculated may exaggerate the problem for it does not count regional and local tax rules, which are more extensive in federal states than in a centralised country like Britain. But the direction of change has also been worrying: the page count has more than doubled in ten years, from 3,700 to 8,300. And Mr Whiting points out that business people particularly dislike what they regard as an increasingly aggressive approach by the tax authorities.

The main levy that bothers companies is corporation tax.

Britain has slipped from having the third lowest rate among the European Union's old 15 members in 1996 to the tenth in 2006. The Treasury expects corporation tax (excluding the North-Sea oil sector) to yield receipts worth close to 3.5% of GDP over the next few years. This would be high compared with other developed countries, according to the Institute for Fiscal Studies.

Each episode of *The Flowerpot Men*, a children's television show, used to end with the question: “Was it Bill or was it Ben?” Where Britain's rising tax burden is concerned many businessmen know the answer: it was Gordon.



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Northern Ireland

A lone ranger

Nov 9th 2006 | BELFAST
From The Economist print edition

The police ombudsman has helped to make peace possible

OUTSIDE Northern Ireland Nuala O'Loan is anything but a household name. A soft-spoken former law lecturer, she commands no battalions and strikes few public poses. But if the province finally settles into lasting peace and self-government, it will be in no small measure thanks to her.

As the police ombudsman for Northern Ireland, Mrs O'Loan has spent five years telling off the province's finest and praising them when they deserved it. An English-born Catholic married to a Northern Irish nationalist, she holds a powerful post that has no equivalent in Britain or the Irish Republic. Not only can she look into public complaints about the police but she can also start investigations of her own. She has done both with determined independence.

Nationalists and unionists are approaching yet another deadline this month on the path to restored self-government, and confidence in the professionalism of the police is a central issue. Remaking the Royal Ulster Constabulary (RUC), once 97% Protestant, into today's Police Service of Northern Ireland, in which one officer in five is Catholic, has been an emotional business. Many RUC officers and unionists have felt the changes rewarded IRA violence, and many nationalists have believed they were only skin-deep.

But Mrs O'Loan has done much to improve matters. The police, to be sure, have sometimes found her straight talking hard to take. Speaking of her first big report, which flayed the official investigation of the Omagh bombing, Sir Ronnie Flanagan, who was both the final chief constable of the RUC and the first chief of the new service, said publicly, “I would not only resign, I would publicly commit suicide if I felt this report to be fair.” A threatened legal challenge failed to emerge. Today a new survey showing that four-fifths of crime victims—both Catholic and Protestant—reported the incident to the police suggests a general increase in respect for them.

Like most of his senior officers, the current chief constable, Sir Hugh Orde, values the ombudsman and the role she plays. Her performance—and that of Sir Hugh himself—has helped persuade many nationalists to abandon their old distrust of the police for a wary acceptance. Even Sinn Fein is on the verge of signing up, although the party will doubtless attempt to extract some last concessions in return. The Rev Ian Paisley, who leads the main unionist party, has indicated that once it does the way is open for a return to power-sharing.

Mrs O'Loan has never shied away from criticising individuals and the system; nor is she stingy with praise when things go right. She has also been open about her own experience of violence. When she was 26, her first pregnancy ended in miscarriage when she was shocked by an IRA bomb. In a province where so much has been hidden for so long, such revelations are liberating.

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Baby euthanasia

Suffer the little children

Nov 9th 2006
From The Economist print edition

Should doctors help sick infants to die?

THERE are few sights that tug at the heartstrings more than that of a desperately ill newborn baby. The instinct is to protect the child against all odds. Now the body representing the doctors that deliver such children into the world, the Royal College of Obstetricians and Gynaecologists, asks whether it is always right to keep the sickest infants alive. It suggests that the rights and wrongs of active euthanasia should at least be debated.

The doctors made their views known to the Nuffield Council on Bioethics, an independent body charged with examining moral issues that arise from medical advances. Nuffield launched a broad inquiry into the care of very sick newborns in October 2004 and expects to make recommendations on November 16th.

Withholding or withdrawing treatment is already legal in some situations—if the child will remain severely impaired, or is brain-dead or suffering unbearable pain, for example. Active euthanasia would allow doctors to go further by, for instance, using morphine to hasten the end of a brief, pain-filled life, if the parents agreed.

British law is broadly unsympathetic to such notions. A number of judicial decisions have forced doctors to prolong treatment in hopeless cases in which the patient or the patient's parents demanded it. And in May the House of Lords halted passage of a bill that would have given doctors some scope to help grown-ups to die.

Other countries, however, have moved towards allowing euthanasia, or “physician-assisted suicide”, for adults who are either terminally ill or suffering unbearable pain. The American state of Oregon has permitted it since 1997. Belgium legalised euthanasia four years ago. Switzerland has a policy of not prosecuting those who assist suicide as long as they can show they did not act selfishly. The Netherlands legalised euthanasia in 2002, although it has tolerated it since the 1970s.

Now the Dutch are considering permitting euthanasia for babies. Some doctors admit openly to having killed very sick children. None has been prosecuted, and this year the government set up a committee to oversee such cases. Baby euthanasia has also been debated in Belgium.

The mere hint that the practice might merit discussion has aroused the fury of pro-life organisations in Britain, however. They argue that it is morally wrong, and that those with disabilities, particularly children too young to speak for themselves, have a right to life. They see baby euthanasia as the first step towards Nazi-style “social engineering”. And they claim that legalising adult euthanasia encourages sick people to choose to die merely in order to lighten the load on their families.

Yet there are also persuasive arguments on the other side. If a child is suffering, say advocates of euthanasia, it is cruel to prolong his existence and if he is inanimate, misguided. Resources in neo-natal care are finite: the time and money spent prolonging one doomed little life might be better employed improving the lot of others with a real future.

Nor is it true that, in countries where euthanasia is permitted, there has been a sharp rise in the numbers of adults or babies who take that route. A Dutch survey in 2004 found that doctors were helping to end the lives of just 15-20 newborns each year—a tiny fraction of the 200,000 annual live births. Richard Nicholson, the editor of the *Bulletin of Medical Ethics*, argues that doctors are often not so much saving lives as “prolonging the end of life”.

There is another reason, too, why baby euthanasia needs discussing, but talking about it is virtually

taboo. Families who bring up massively handicapped children often find the stress too much for them.

Take the case of Charlotte Wyatt, born at 26 weeks in 2003 with severe disabilities. Her doctors wanted to withhold treatment but her parents argued successfully that she should be kept alive. Now the parents have separated and Charlotte is up for adoption. Disabled children are nine times more likely than others to end up in the care of the state.

Tiny babies do tug at the heartstrings but raising a severely impaired child is heartbreakingly hard. It is brave of doctors to dare to question whether they should save the life of each and every one.

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Abortion

How late is too late?

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From The Economist print edition

Opinion may be shifting but a change in the law is unlikely just yet

THE debate over how to handle babies who are born severely handicapped has dragged the issue of late abortion into the spotlight. Under British law, women can end their pregnancies much later than many of their continental counterparts—up until 24 weeks, as long as two doctors authorise it. In Italy, for example, a 90-day limit applies and, perhaps more surprisingly, in Sweden abortions are normally permitted only until the 18th week of pregnancy (see table). Now Britain's late limit, always controversial in some quarters, is coming under renewed fire.

Last month Nadine Dorries, a Conservative MP, introduced a bill cutting the limit to 21 weeks and imposing a ten-day "cooling-off" period between visiting a doctor to request an abortion and actually having one. The bill went nowhere, but then it wasn't expected to do more than air the issue. A survey of 154 MPs in 2005 by Communicate Research, a polling company, found 63% of them in favour of lowering the limit, almost double the 2004 figure of 37%.

Others have grown uneasy about abortion rules too. Pollsters at IPSOS-MORI found that less than a quarter of people surveyed in 1996 believed access to abortion should be made harder. Ten years later 42% were in favour of reducing the time limit.

Advances in technology have contributed to this disquiet. Four-dimensional scans of babies "smiling" in the womb have made very young fetuses seem more real. When people look at an unborn baby sucking its thumb, they see it as a human being, says Josephine Quintavalle, of Alive and Kicking, a pro-life campaign group. And the fact that very premature babies now have a far better chance of living—albeit usually with severe disabilities—has also made late-term abortion a harder sell than it was.

A matter of life and death

Abortion laws, April 2005

	Term limits* (weeks)	Conditions
Canada	None	None
China	None	None, except ban on selecting baby's sex
Britain	**24**	**On medical, social or economic grounds†; authorised by two doctors**
Germany	22	On medical grounds; counselling up to 12 weeks; exceptional distress up to 22 weeks
Sweden	18	None
Finland	16	On medical, social or economic grounds†; rape; authorised by two doctors
Italy	13‡	With parental consent
France	12	On medical grounds
India	12	On medical, social or economic grounds†; incest; parental consent
Spain	12	On medical grounds; rape
United States§	12	With parental consent
Ireland	–	Only to save mother's life

*Other than in medical emergency †Danger to mother or child; poverty; age of mother; number of other children ‡90 days §Majority of population

Source: Centre for Reproductive Rights

Yet a change in the law is unlikely at the moment, for a couple of reasons. The first is that abortion after 20 weeks is in fact rare, so moves to outlaw it lack real-life bite. Well under 1% of all abortions in England and Wales involved fetuses over the age of 21 weeks. When people realise how few cases of late abortion there are, opposition to the concept diminishes, says Laura Riley, of BPAS, which runs family-planning clinics.

A second reason is that some very serious fetal problems still are not detectable until pregnancy is relatively advanced, and this has been a main reason for late terminations. That could change if newborn euthanasia becomes a more widely accepted option. But probably not soon.

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Railways

Crossed signals

Nov 9th 2006
From The Economist print edition

Britain's railways are privatised only in name

Alamy

Get article background

PARLIAMENT'S select committee on transport rather prides itself on being a thorn in the government's side. Its most recent report, into the franchising system under which private firms are awarded contracts to run rail services over centrally-owned tracks, was no exception. It excoriated the government for a "self-contradictory muddle" that offered "no coherent framework" for the future.

Britain's supposedly privatised railway system is drifting back towards state control. The committee points out that firms are compensated if their workers go on strike, or if their rail-access charges rise. They are generously subsidised if they lose money and heavily taxed if they make it.

The point of privatising the railways in 1996 was to improve service for passengers and stop wasting taxpayers' money. This remains the government's aim. But "there's been an evolution in rail franchising," says George Muir, head of the Association of Train Operating Companies. He contrasts the early years—when firms were given plenty of operational flexibility and little coddling—with more recent agreements, in which officials determine everything from timetables and destinations to staffing levels. Stripped of the ability to run their own businesses, firms insisted that government should bear more of the risk.

The result has been a new generation of revenue-sharing agreements that tie the interests of the Treasury (hence the taxpayer) to those of the firms running the trains. New bids for franchises are judged almost exclusively on their cost or benefit to the public purse, says John Segal, a rail expert at AWG, a consultancy.

Take the case of GNER, which is owned by Sea Containers, a bankrupt American firm, and runs what was expected to be a profitable service from London to York. It won the ten-year franchise last year partly because it promised to pay the government an unprecedented £1.3 billion over the life of the contract. Some worried that the deal would mean higher fares or poorer service, but such promises were music to the ears of ministers pumping £5 billion a year into the rail network.

GNER now admits that its passenger forecasts may have been optimistic. But its biggest problem is the decision made in March by the independent rail regulator to let Grand Central Trains, a newcomer to the business, operate along part of GNER's route.

Encouraging “on-rail” competition between firms is one of the regulator's legal duties. It means more choice for passengers, but lower profits for operators—and less income for the government. GNER should have known that it might face competitors on the rails but chose to trust a useless assurance from the Department for Transport (DfT) that it would not. Now, unless GNER can renegotiate its contract, it may simply hand it back.

Many observers have criticised ministers for being too blinded by promised riches to assess the risks surrounding GNER's bid. MPs worry that, if the government is faced with the prospect of taking over and running the franchise itself, a bail-out may be in the offing.

All this means that today's railway system bears little resemblance to the one envisaged a decade ago. Risks that were supposed to fall on the private sector are borne by the state and train companies have little freedom to run themselves. “In some ways the railways are under more state control than they have ever been,” says Stephen Glaister, a professor at London's Imperial College. “And this has happened without proper parliamentary scrutiny.”

Later this year the government will publish Sir Rod Eddington's review of transport policy and next summer it plans to set out a 30-year plan for the future of the railways. A proper debate is overdue.

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Bagehot

Let's play nicely

Nov 9th 2006
From The Economist print edition

Despite everything, Tony Blair and Gordon Brown are back together. Can it last?

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SOMETHING rather shocking has happened. Little more than eight weeks since a bungled coup by acolytes of Gordon Brown failed to force Tony Blair from office, the prime minister and the chancellor seem to be dancing through life's garden hand in hand. They are working together more harmoniously than at any time since the issue of the Labour leadership was resolved in Mr Blair's favour 12 years ago.

The most convincing evidence for this is the unprecedented meeting with 60 junior ministers and senior civil servants convened jointly by Messrs Blair and Brown on November 7th. The meeting was designed to enlist every member of the government in a vast exercise to review and renew policy that was launched by the prime minister three weeks ago. When Mr Blair announced he was setting up six cabinet working groups that would “step back” from the daily grind of governing to plot a course for the next decade, it was derided in some quarters as an attempt to tie his successor's hands while appearing busy during the fag-end of his premiership.

Given recent history, such cynicism is understandable. In this instance, though, it is wrong. Although the plan was originally conceived in Number 10, the prime minister quickly realised that without Mr Brown's blessing Pathways to the Future, as the project was portentously known, would be stillborn. Mr Brown, sensitive to recent charges that he is not a team player, could see that withholding his approval would not look good. So rather to everyone's surprise, when Mr Blair outlined his plans to the cabinet, Mr Brown spoke warmly in favour of them and committed the Treasury to working with Number 10 and the Cabinet Office.

Damaging though the September plot against Mr Blair undoubtedly was, some good came out of it. The backlash chastened Mr Brown and his followers. They now realise that any further mischief will harm them far more than it will Mr Blair.

As for the prime minister, he may briefly have hoped that fresh doubts about Mr Brown's character would allow a serious rival to the chancellor to emerge. But that hasn't happened. The opinion polls still make uncomfortable reading for Mr Brown—the Tory lead tends to jump a bit when voters are asked to imagine him as prime minister—but potential rivals, such as John Reid, the home secretary, or Alan Johnson, the

education secretary, have faded from view.

The result is that a new calm has descended on the most turbulent relationship in British politics. Mr Brown's nail-chewing insecurities have been eased by knowing (roughly) both the date of Mr Blair's departure and that he will probably not face a serious contest for the leadership. Mr Blair now accepts the inevitable and is resigned to making the best of things.

The significance of the new working groups, which cover public services, economic competitiveness, security, the environment and energy, the role of the state and foreign policy, is twofold. First, they will provide a narrative linking Mr Blair's legacy to Mr Brown's inheritance. That will help the prime minister go out on a high next May (or thereabouts) and offer Mr Brown the chance to lead a stable government that knows where it is going. Second, the process implicitly recognises how hard it is for long-lived governments to revitalise themselves and tries to do something about it. Ministers are worn down by long hours, a sense of permanent embattlement and the compulsion to defend everything the government has ever done.

As one Downing Street insider put it: “A government's relationship with the electorate is a bit like Julian Barnes's description of a marriage. The longer it lasts, the easier it is to annoy each other and the harder it is to please each other.” The fate of John Major's government should serve as a warning. Without any clear idea of what they were doing, ministers succumbed to the bathos of the highway “cones hotline” and the “back to basics” agenda.

The working groups are intended to feed their proposals into next year's budget and the three-year comprehensive spending review due next summer. Both Mr Blair and Mr Brown believe that the next election could be won or lost in the coming 12 months, when voters will have a chance to decide whether Labour or the Tories look most like coming up with answers to problems that have changed considerably during the government's decade in power. These include immigration, an ageing population, widening health inequality, the growing demands for choice and personalisation in public services, energy security and global warming.

The charm of distance

That Mr Blair and Mr Brown are capable of burying their differences sufficiently to embark on such an ambitious task is a reminder of what has made them so formidable for so long: their sheer appetite for power. Although conventional wisdom has it that the government is drifting, they are in fact trying to pull off one of the hardest tricks in politics—renewal in office.

That does not mean they will succeed. Will Whitehall really throw itself behind the effort to write the next Labour manifesto? Will the superior, aloof Treasury really play well with others? Will Mr Brown's restless and impatient team really stay committed to co-operation and continuity?

Another warning for the government comes not from the past but from across the Atlantic. The message of the American mid-term elections is that there is no more potent political idea than “time for a change”. With Mr Blair's close ally, George Bush, now facing unrelenting pressure over his Iraq policy and the investigation into cash-for-honours working its way towards a messy and perhaps embarrassing climax at home, the possibility that Mr Brown could come to a different view of where his interest lies should not be ruled out.

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Water, sanitation and poverty

Clean water is a right

Nov 9th 2006
From The Economist print edition

But it also needs to have a price

AFP

GROWING up on the shores of Lake Victoria in the 1950s, Anna Tibaijuka would earn a couple of cents by sorting coffee beans for her father. With one of these coins she would buy a sweet from an Indian shopkeeper. With the other, she would buy potable water from a kiosk.

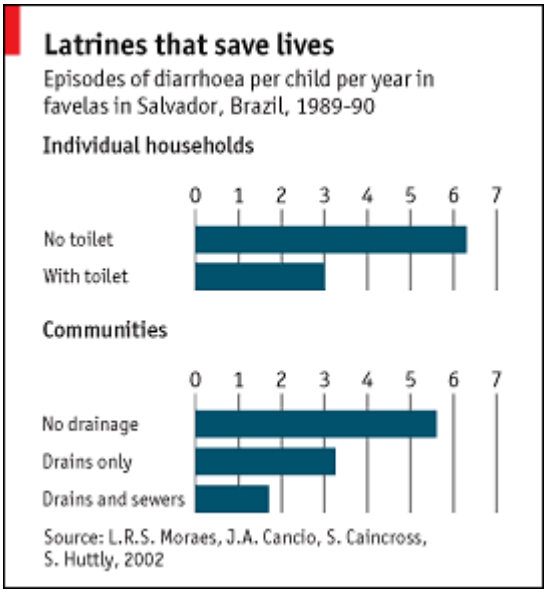
But when she returned to her hometown in early 1960s, the kiosk was no more. Julius Nyerere, Tanzania's first president, had declared water free. When it cost a cent, not a drop was wasted, Mrs Tibaijuka recalls. But when the tap ran freely, water was squandered, and—inevitably—stopped.

Mrs Tibaijuka now heads UN-Habitat, the United Nations Human Settlements Programme, one of 23 UN agencies with some stake in helping the 1.1 billion people around the world who do not get enough safe water, and the 2.6 billion who live in unsanitary squalor. This week another of those agencies, the United Nations Development Programme (UNDP), published its annual report on human development. It denounces the world's complacent disregard for such unglamorous subjects as standpipes, latrines and the 1.8m children who die each year from diarrhoea because the authorities cannot keep their drinking water separate from their faeces.

The study is both coldly analytical and angry. Its lead author, Kevin Watkins, recalls a visit to Kibera, a Nairobi slum where people defecate into plastic bags, which they toss onto dumps or by the road. These “flying toilets”, as they are called, often land on fractured water-pipes. When the pressure drops, the pipes suck in the matter piled on top. In such conditions, drains and sewers are not just nice to have; they are vital tools of preventative medicine, needed to combat diarrhoea (see chart).

The report calls for access to water to be recognised as a human right by governments around the world, as it is by South Africa's. But for all its idealism, the study does not repeat Nyerere's mistake. It acknowledges a hard reality that some people find as unsavoury as the technical details of building latrines: whatever they put in their constitution, governments should also make better use of the most reliable guarantor of supply—price.

Whether or not water is a right, it is also a commodity which, unlike liberty of expression or freedom from torture, is costly to provide. If those costs are not covered, water will not be supplied. Moreover, unlike most human rights, a litre of H_2O enjoyed by one person cannot be consumed by anyone else. If some people underpay and overconsume the stuff, there will be less of it for others. As the human development report puts it: “Underpricing (or zero pricing in some cases) has sustained overuse: if markets delivered Porsche cars at give-away prices, they too would be in short supply.”

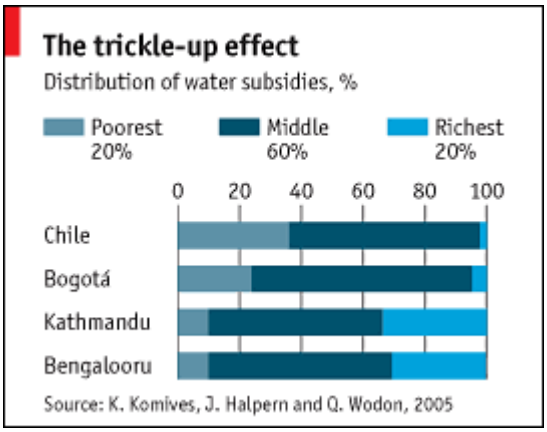

Latrines that save lives
Episodes of diarrhoea per child per year in favelas in Salvador, Brazil, 1989-90
Individual households
0 1 2 3 4 5 6 7
No toilet
With toilet
Communities
0 1 2 3 4 5 6 7
No drainage
Drains only
Drains and sewers
Source: L.R.S. Moraes, J.A. Cancio, S. Cairncross, S. Huttly, 2002

But can the poor afford to pay the costs of supplying water? Not without help, the report argues. As a rule of thumb, it takes about $10 a month to supply a household in a poor country with the water it needs to subsist , according to Vivien Foster and Tito Yepes of the World Bank. They calculate that about 90% of Latin American households could afford a water bill that size, without spending more than 5% of their income. But in the continent's poorer countries, such as Honduras, Nicaragua and Bolivia, 30-50% of urban households could not stretch that far. And in India and sub-Saharan Africa, more than half of households would struggle to pay.

If the poor cannot pay, someone else must. Taxpayers already bear some of the costs of water, shovelling money into loss-making public utilities. Ms Foster and Mr Yepes reckon that almost 90% of water utilities in low-income countries do not charge their retail customers enough to cover the costs of operating and maintaining their pipes, let alone investing in them.

Utilities, then, are thirsty for taxpayer handouts. But as with blocked plumbing, these subsidies flow largely in the wrong direction. It is mostly the better-off who enjoy connections to the water grid, and so it is they who mostly benefit from its underpriced water (see chart).

In Chile subsidies are better aimed. Poor households must prove their straitened means to the government, which then picks up between 25% and 85% of the monthly tab for up to 15 cubic metres (3,960 American gallons) of water. The UN report praises Chile's model—but it cautions that such an approach requires a government that can identify the poor, and a firm that can meter their consumption.



The upshot is that asking utilities to cover more of their costs is not as callous as the left-wing “water-warriors” claim. It may benefit the poor if the money the exchequer saves can then be handed to them through cash transfers, or spent on connecting them to the mains, rather than on filling the baths and basins of the rich.

Nonetheless, “cost-recovery” is taboo in some circles, because of two other unmentionables that are assumed to follow from it: profit and privatisation. The report is sceptical about privatisations of the past, several of which ended badly.

But now, the report suggests, arguments over the principle of privatisation are merely a distraction. The same sentiment was expressed earlier this year at a World Water Forum in Mexico, where many delegates were eager to get past the old dichotomy of “public versus private” forms of water supply. Left-wing NGOs, such as the World Development Movement, say this change of tone means the private sector is now on the defensive.

The poor would be puzzled to hear that the profit motive is in retreat. As the report points out, many of them rely on water freelancers—laying pipes, drilling wells, or trucking water—who sell water to people unserved by public utilities. In Latin America this “other private sector”—as Tova Maria Solo, a World Bank analyst, calls it—shows business acumen and sets surprisingly keen prices.

For all the passion of their utopian defenders, the poor know better than to count on help from their own governments or even on foreign donors for water. Unless Mr Watkins's case for rationally administered

aid is heard, poor, thirsty people will continue to turn to the “other private sector”, which is often the only provider they can rely on.

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Economist.com WORLD

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About sponsorship

National branding

A new sort of beauty contest

Nov 9th 2006
From The Economist print edition

Polishing your nation's brand is an expensive and often futile endeavour. Just ask the wretched Kazakhs

FOR 15 years you have tried to make the world aware of your newly born country. It is huge—the size of western Europe—rich in natural resources, modernising fast. But progress is frustratingly slow. Then a pestilential foreign comedian makes you (in)famous overnight, for grotesque but fictional squalor, cruelty and vulgarity. Should you be pleased, cross or both?

That is the puzzle facing Kazakhstan, thanks to “Borat!: Cultural Learnings of America for Make Benefit Glorious Nation of Kazakhstan”, a new film that has proved a surprise box-office hit in America. A mock documentary, it portrays Borat, a lecherous, racist Kazakh (but actually a British comedian) visiting America, with assorted misapprehensions on both sides that are comical or tasteless depending on your viewpoint. Kazakh officials are now grimly trying to show they share the joke; Russia says it will ban the “humiliating” film.

Wally Olins, who advises countries on how to market themselves, says Borat is a “disaster” and the Kazakhs should “shut up and wait until it dies down”. Simon Anholt, a specialist in the same field and author of “Competitive Identity”, a book published this week, is more sanguine. The film has brought “raw awareness that they would never have managed otherwise,” he says. But what to do with it?

People with the answer to that kind of question—or those able to pretend that they know—find business is booming. Mr Anholt says that in recent months “a country a week” has been asking for his help. Big public-relations companies say it is one of their most lucrative new lines. Most countries think that the outside world sees them wrongly. It is tempting to spend taxpayers' money on trying to put that right.

But how? The commonest form is advertising: statistics-laden special supplements, where leaden prose is coupled with cheesy new logos and lame slogans. Mr Anholt notes wryly that almost every country claims to be a crossroads or a gateway (or both) and presents itself as a “land of contrasts”.

But money spent this way can easily be wasted. Mr Olins notes that countries, unlike companies wanting to build brands, find it hard to stick to a strategy, project a clear message, or measure success. Furthermore, most people's views of foreign countries are deeply rooted and cherished. Unfavourable and comical stereotypes outweigh positive news.

Messages to different audiences may overlap, or conflict. José Torres of Bloom Consulting, which advises Portugal, says that the country's reputation as a laid-back holiday destination muffles its desired image as a good place for high-tech investment. He speaks lyrically about the process of determining the country's desired persona. “What clothes would it wear, what car would it drive, what mobile phone would it use?”

If that works at all, it is a long slog. There are two ways a country's image can change quickly for the better. One is good luck. “Crocodile Dundee”, a witty, virile Australian backwoodsman—an attractive version of Borat—transformed American perceptions of Australia. But such effects are usually partial. “Lord of the Rings”, a fantasy trilogy, showed the spectacular unspoilt scenery of New Zealand, where it was filmed, but has yet to help the food industry there much (see article).

The other is innovation. New products and brands, arts and music, attractive politicians, even better public administration all change people's perceptions. In business, at least, image-polishing cannot substitute for regular rebukes and bouquets from bodies that systematically scrutinise countries' reputations, such as Transparency International (see article).

Nor can money spent on glitz and schmooze easily make up for dire political realities, such as a bad record on free speech, or an amnesiac approach to history. But that doesn't stop governments from trying. Russia is spending lavishly in the hope of boosting its international profile. Projects include trips for foreign journalists and politicians (one particularly cushy one was dubbed the “plane of shame”); another is an English-language television channel that aims to counteract the increasingly critical portrayal of the country abroad. A more successful initiative is an annual winter cultural festival in London's Trafalgar Square. That has cleverly combined two of the commonest popular perceptions of Russia: harsh winters and historic strength in art and music.

The American administration is also spending heavily on public diplomacy. But apparently to less effect. Polls show unparalleled hostility around the world not just to the administration but to the country itself. “America spent 300 years building a powerful, rich, globally adored brand,” says Mr Anholt. “It is leaking away very quickly.”

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Corruption

Strains of sleaze

Nov 9th 2006
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How trustworthy is the experts' verdict on governments' honesty?

WHO judges the judges? Transparency International's annual corruption index (see chart) ranks governments around the world for their honesty or lack of it. But how much weight does the survey, based on the views of businessmen and other country experts, deserve?

Branded in the world's eyes

Corruption perceptions index, rankings

2006	2005	Country
1=	1	Finland
1=	2	Iceland, New Zealand
4	4	Denmark
5	5	Singapore
6	6	Sweden
7	7	Switzerland
20	17	United States
45	40	Italy
60	65	Turkey
70=	62	Brazil
70=	88	India
111	107	Kazakhstan
142	152	Nigeria
160=	137	Iraq
160=	na	Guinea
160=	155	Myanmar
163	155	Haiti

Source: Transparency International

Few would quibble with the outlines. The most corrupt countries are the poorest, and the cleanest are the richest. Those who know Haiti do not doubt that it deserves to be somewhere near the bottom; Finland, Iceland and New Zealand are plausible candidates for the top (though both Singapore and Denmark are in effect there too).

For countries like Italy, ranked 45th, the index provides an annual rebuke, and confirmation that corruption can thrive even without the alibi of poverty. For America, which is now no cleaner than Chile, this year's ranking was a fresh embarrassment.

But for poorer countries that jockey for position nearer the foot of the table, money as well as pride is at stake. Donors, fed up with corruption, use these rankings as a guide. Seven of the nine sources that Transparency International (TI) relies on for its raw data also guide the American government's Millennium Challenge Corporation. This week it announced which countries may pitch for its aid money, likely to be $2 billion this year.

So are the expert perceptions worthy of the weight now being put on them? TI itself “does not encourage” the use of its corruption indicators as a condition for aid. This is not because it doubts the veracity of its scorecard, but because it insists that corrupt countries should not automatically be denied aid.

There is growing rivalry between those who measure corruption by looking at bureaucracy, and those who prefer the more impressionist indicator of perceptions. The World Bank, for example, publishes a “Doing Business” survey that plots where the dead hand of the state falls most heavily: how many days it takes to clear customs, or to set up a business, for example. This week it released a new report on the administrative burdens of the tax code. Admittedly, these are not measures of corruption per se, but the more licences and signatures a business has to collect, the more bribes it is likely to pay.

Supporters of this approach question TI's methodology. The sample of experts is not consistent over time. As with all rankings, adding new countries can change the standings, without reflecting absolute change. Relying mainly on foreigners' perception of corruption may overstate it. More detailed World Bank studies show respondents in some countries saying that corruption is prevalent but not a menace to business. Such countries may prosper despite corruption—at least for a time.

TI points out that some of its informants live locally; others were born there. Foreigners' views tally well with those of residents. A defence of subjective measures of corruption comes from Daniel Kaufmann, Aart Kraay and Massimo Mastruzzi of the World Bank Institute, who compile their own indicators, drawing

on many of the same sources as TI. They find that expert opinions are more tightly correlated with the impressions of businessmen than they are with each other. “Halo effects”, as they are called, may be more of a problem. Perceptions of corruption in countries like South Korea and Thailand deteriorated along with their currencies in the wake of the financial crisis of 1997-98.

Corruption has many different strains: sometimes politicians are bent and judges are straight; civil servants may be honest executors of a corrupt politician's will; or the minister may be honest, but officialdom crooked. So two countries with similar rankings may suffer from rather different problems. TI's rankings show the analysts' disapproval, but not what governments must do to impress them.

The Organisation for Economic Co-operation and Development (OECD) is trying to highlight this. Its “Investment Compact” assesses poor countries—initially in south-eastern Europe, and in future elsewhere—for good government in both theory and practice. The seven categories it studies include tax policy and administration, tariff and other barriers to trade, regulatory reform and education. The methodology is solid and the results revealing—but there's a catch. Only backward countries get the treatment. Putting rich countries under that kind of spotlight, explains an OECD official ruefully, would be “politically unacceptable”.

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Nuclear power

Half life

Nov 9th 2006
From The Economist print edition

The nuclear industry is predicting a rapid expansion—but that will not happen without government help

"NUCLEAR has to be part of the energy mix," insists Claude Mandil, the head of the International Energy Agency (IEA), a think-tank-cum-watchdog for power-hungry countries. He was speaking at the launch this week of a report that overturned the IEA's previously pessimistic view of the prospects for nuclear power. It now estimates that nuclear generation will grow by at least 13% by 2030, and perhaps as much as 40%. The firms that build nuclear plants are making similarly rosy projections. The nuclear division of General Electric (GE), an American conglomerate, predicts that 66 gigawatts of new capacity—equivalent to the output of about 44 big reactors—will be ordered by 2020. Areva, a French nuclear firm, foresees 130 new plants by 2030.

There are several reasons for this optimism. The prices of rival power sources, including coal and natural gas, have risen dramatically in recent years. At current levels, the IEA calculates, nuclear power is cheaper than gas and almost as cheap as coal. Unlike such fossil fuels, which release climate-changing carbon dioxide when burnt, nuclear power is "carbon free". Better yet, uranium comes from stable countries such as Canada and Australia, so interruptions to supplies are unlikely. GE, Areva and another rival, Westinghouse, are also touting new designs that they say are safer than existing nuclear plants.

Yet just one such reactor is under construction, in Finland, and there are firm plans for only one other, in France. Utilities and financiers, it seems, are less certain about the merits of new nuclear plants than the IEA's economists. The main problem seems to be "regulatory risk"—a euphemism for fears that politicians, planning officials and protesters will hold up or entirely derail the construction of new plants. Another worry is that new reactors, based on unproven technology, will cost more than expected to build and run.

Delayed reaction

Construction accounts for as much as three-quarters of the cost of nuclear generation, since fuel and other operating costs are relatively low. (At power plants running on natural gas, by contrast, construction is cheap but fuel is costly.) The expense of financing this big initial outlay leaves profits susceptible to delays in licensing or construction—problems that have afflicted nuclear projects in the past. The risks are all the more pronounced in liberalised markets, where power plants cannot be sure that there will be customers for the electricity they generate. In such circumstances investors tend to plump for less capital-intensive facilities which provide a quick return.

The reactor that Areva is building in Finland might have dispelled worries about the commercial viability of new plants, were it not behind schedule and over budget itself. Areva dismisses these setbacks as the typical teething pains that come with any new design, but the result is a big hole in its balance sheet: its reactor division reported a loss of €266m ($340m) in the first half of the year. Moreover, it will not be easy to replicate the Finnish reactor's financial model. The consortium of utilities and their main customers that is paying for the reactor will also purchase its output at cost, providing an assured market and so lowering borrowing costs and dispensing with the need for profits.

Electricité de France (EDF), the utility that is about to build a new reactor in France, says it will pay the €3.3 billion bill out of normal revenue. But only the biggest power firms have the financial muscle required to do this. What is more, the regulatory risk is negligible in France and Finland, since nuclear power is widely accepted by politicians and public alike, so financiers are less skittish.

In other countries nuclear firms are hoping that governments will ease the way. Britain recently promised to make it easier for new reactors to win planning permission, although it also pledged not to subsidise nuclear power. America has no such qualms: it is offering a raft of incentives for the first few new plants to be built there, including insurance against regulatory risk. In many countries with regulated electricity markets, incumbent firms, many of them state-owned, can simply pass the costs of construction on to customers or taxpayers. It is no coincidence, nuclear analysts say, that the majority of American firms planning new nuclear plants want to build them in the relatively heavily regulated south-east.

In France, too, the government's role is crucial. During the oil crises of the 1970s it decided that nuclear power offered the best route to energy independence. In true *dirigiste* tradition it launched a reactor-building programme with little public consultation. EDF, which is state-controlled, now derives 85% of its production from nuclear power plants. Public opinion has accepted nuclear reactors as a fact of life.

On a recent trip to China the French president, Jacques Chirac, lobbied hard on behalf of Areva, which is vying with Westinghouse to build four new nuclear-power plants there. But the government's strong links with Areva have proved to be a mixed blessing. Last year, at the last minute and to the great disappointment of Areva's boss, Anne Lauvergeon, the government cancelled the firm's planned share sale, depriving it of funds earmarked for the expansion of its fuel-processing business. At the end of June it extended Ms Lauvergeon's term in office on the condition that she stop talking about a share offering. Even her original appointment was political: she was a protégée of François Mitterrand, a former president.

Areva's political problems pale next to those of E.ON, a German electricity giant. Although Germany also started to build nuclear reactors in response to the oil crises of the 1970s, public opinion soured in the aftermath of the Chernobyl disaster in 1986. In 2000 the government of the day, a coalition of leftists and Greens, passed a law forcing the shutdown of the country's 19 reactors by 2020. E.ON, which owns six reactors outright and holds shares in five more, will have to use gas or coal to make up for the loss of the 33% of its power output generated by nuclear reactors.

The firm hopes that the law requiring the nuclear shutdown will be changed—something Angela Merkel, the German chancellor, promised during last year's election campaign but has yet to deliver. But E.ON concedes that building new nuclear plants in Germany would be inconceivable, since public opinion is so hostile.

In most countries, in other words, the future of nuclear power rests more on political considerations than commercial or technological ones. Investors will be reluctant to commit themselves without a big shift in public opinion or pledges from governments to push through planning approval or defray the cost of any delays. As Fatih Birol, the IEA's chief economist, puts it: “If governments do not facilitate the investment, I don't think nuclear will fly.”

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Volkswagen

The backseat driver gets his way

Nov 9th 2006
From The Economist print edition

Bernd Pischetsrieder quits as boss of Europe's biggest carmaker

WHAT on earth is going on at Volkswagen? Profits will be up 50% this year and the share price is riding high—yet the boss has suddenly quit. The problem is that VW is not as healthy as it looks and is beset with political problems, both internal and external.

Start with the external politics. VW has the state of Lower Saxony as a big shareholder and a special law to protect it from takeovers. The German government is under persistent pressure to scrap this law from both the European Commission (which says it is anti-competitive) and foreign investors (who think it caps the share price). Meanwhile, the internal politics on VW's supervisory board has turned into a civil war. Bernd Pischetsrieder, who will leave the chief executive's job at the end of the year, only six months into a new contract, is the latest victim.

His predecessor, Ferdinand Piëch, is now chairman of the supervisory board and the relationship between the two soured long ago. Mr Piëch has made no secret of his desire to replace Mr Pischetsrieder with Martin Winterkorn, the head of Audi, the VW group's successful premium-brand subsidiary. Audi has done so well that it is now propping up the rest of the group: its margins are double those at VW. In America VWs are even sold at a loss, because of the strength of the euro and the relative inefficiency of VW's German factories.

Things got worse when Porsche, a sports-car firm in which Mr Piëch is a big shareholder, took a 20% stake in VW at his behest last year. The move paid off for Porsche and its shareholders because the VW share price soared. The appointment of two Porsche bosses to VW's supervisory board also increased Mr Piëch's power. Hence VW's bizarre decision to axe low-cost production in Belgium, Spain and Portugal, and to repatriate work to more costly German plants in order to make better use of their capacity. Mr Piëch is replaying his strategy from the mid-1990s when, unable to sack German workers for political reasons, he ramped up production to accelerate out of trouble.

Mr Piëch's trick is unlikely to work this time—VW already has a huge share of the European market, and now faces much tougher competition. For his part, Mr Pischetsrieder has evidently had enough of Mr Piëch's backseat driving.

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Novartis

A novel prescription

Nov 9th 2006 | SHANGHAI
From The Economist print edition

A big Western company moves into China, but not for the usual reasons

WHEN large Western firms set up shop in China, it is generally because they plan to take advantage of low-cost manufacturing of goods that contain the minimum possible amount of intellectual property that might be stolen. But that is not the case for Novartis, the world's fourth-largest pharmaceutical company, which announced plans this week to invest $100m in a new research facility in Shanghai. Its motives are different and rather unusual.

At the moment most cutting-edge pharmaceutical research is carried out in western Europe, America, Israel and Japan, all of which have highly educated populations and strong intellectual-property laws. Other countries, including China, must content themselves with the less sophisticated back-end work of product development rather than basic research. Indeed, confidence in China's domestic drugs industry is so low that the government is reluctant to approve clinical trials of anything not being used abroad. Novartis, however, hopes its new facility in Shanghai will eventually become one of its three big research hubs, alongside Cambridge, Massachusetts, and Basel in Switzerland—and ahead of its other facilities in Vienna, London, La Jolla, New Jersey, Tokyo and Singapore.

The company says its plans are not motivated by a desire to cut costs. Indeed, it argues that there is, in effect, an international market price for top scientists that is the same wherever they operate. By locating in Shanghai, perhaps China's most expensive city, Novartis turned down inland areas where prices are lower and government inducements abound. Shanghai, it hopes, will have more appeal to globetrotting researchers—and the city is packed with universities and hospitals bubbling with ideas.

The role of the research centre will be to create new drugs for which there is strong demand in China in particular, and in Asia more generally. At first it will concentrate on contagious diseases that are preventable or cause relatively benign illnesses outside China, but commonly lead to deadly cancers of the liver, stomach or nasal passage within China. Whether the different outcome is the result of environmental or genetic factors is unknown, but China offers a huge pool of subjects for study and a promising market for any resulting treatments.

Another cultural revolution

Although it will be at least five years before any new drugs emerge, there may be subtle marketing benefits for Novartis in the meantime. Because of a recent crackdown on corruption throughout China, Western companies are no longer allowed to meet purchasing directors in hospitals, which are major distribution points for drugs. This has had a huge impact on sales: Novartis has watched its annual sales growth drop from 25% to 10%. Developing a reputation for advanced research into critical diseases could help its brand.

More broadly, Novartis's investment is a bet—albeit a modest one, given its gigantic research budget—that China is now evolving into more than just a commodity producer with cheap labour. An entire generation of scientists was lost to the Cultural Revolution in the 1960s and 1970s. In the 1980s a trickle of smart students began to emerge once again from universities, and the trickle has since become a flood, providing an immense pool of talented Chinese, says Daniel Vasella, Novartis's chief executive. En Li, a Shanghai-born biologist with a long track record of academic papers and research at major American institutions, will head Novartis's new research institute. The company hopes that other Chinese-born scientists working abroad will be eager to join him. Others will be hired within China. None of the Chinese universities is particularly famous, but Novartis believes their standards are already world-class.

What about concerns over intellectual property? Conditions are improving, says Mr Vasella, and are now tolerable, if not ideal. When it comes to counterfeiting, for example, producers of fake drugs are still not tracked down by the authorities, but they are dealt with when exposed by others. And since drugs take such a long time to develop, Mr Vasella believes intellectual-property protection will be sufficient by the time the research laboratory produces its first fruits.

Another factor that can discourage foreign companies from setting up sophisticated operations in China is the dramatic rate of employee turnover. Novartis has suffered from this itself, but Mr Vasella says turnover is highest among employees, such as those in sales and marketing, whose skills transfer readily from one industry to another. When it comes to attracting top-level scientists in China, the only real competition comes from academia, since the other big drug companies have not set up significant research centres. This advantage is unsustainable, of course: for if Novartis succeeds in China, its rivals will not be far behind.

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Marketing New Zealand

From fantasy worlds to food

Nov 9th 2006 | NELSON AND WELLINGTON
From The Economist print edition

New Zealand is promoting itself as a destination for food tourists

AT THE Lodge at Paratiho Farms in Nelson, lambs and chickens frolic outside while the head chef, Angela Bone, prepares for the morning cooking class. Today's spring menu: Portobello mushroom and Kumara soup, salmon cakes with asparagus and lemon compote. Ms Bone has never been busier. “Students finally want recipes suiting our seasons, culture and tastes, not emulating food abroad,” she says.

For decades New Zealand's food was dire, with a heavy reliance on boiled vegetables, under-seasoned meats and stodgy cakes. All this has changed. Now a huge number of New Zealanders identify themselves as “foodies” and seek out fresh, local produce. Cooking classes are trendy, New Zealand's wines are hailed at global contests such as the Aspen Food and Wine Classic, and its honey, cheeses and breads sell well both locally and abroad. Investors are noticing too. In September Cerebos-Gregg's, a Japanese-owned firm, bought Caffe L'affare, a specialty coffee-roaster based in Wellington, for NZ$25m ($16.7m). And last week Bacardi, a drinks firm, made a formal NZ$137m cash offer for 42 Below, a luxury vodka brand that trades on New Zealand's reputation for purity.

New Zealand famously promoted itself as a tourist destination using the dramatic landscapes seen in “The Lord of the Rings” films. Now that the magic has faded, it has started emphasising its food and wines in addition to its natural beauty. One approach is to reach out to potential visitors in other foodie hubs. At last year's “Maori Art Meets America” event in San Francisco, New Zealand pinot noirs, breads, meats and cheeses were served. “All this helps grow the food and wine sector tremendously,” says George Hickton of Tourism New Zealand. Michael Hall, professor of tourism at the University of Canterbury, predicts that saffron, walnuts, truffles and olive oils will be the next Kiwi foods to be marketed abroad in an effort to develop food tourism.

Since 2003 tourism has replaced dairy agriculture as New Zealand's largest source of foreign earnings. But there is a potential problem with marketing New Zealand on the basis of freshness and purity: the growing concern over the pollution caused by long-haul flights. Ominously, such concerns are likely to be particularly acute among foodies.

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Telecoms in Australia

Mood music

Nov 9th 2006 | SYDNEY
From The Economist print edition

Sol Trujillo's transformation of Telstra is starting to impress investors

THE embattled chief executive of Telstra, Sol Trujillo, helped pay his way through college in America by playing the trumpet in his family's Mariachi band. But his past 16 months as the head of Australia's biggest telecoms firm have seen him reaching for the violin. His sorrowful refrain has become as familiar to fund managers in Sydney as it is to policy wonks in Canberra. Mr Trujillo bemoans an overbearing government which is both his firm's main shareholder and its regulator.

In recent months, Mr Trujillo has grappled with the government over board nominations; his A$8.7m ($6.7m) pay packet; and, most seriously, a thicket of regulations designed to ensure that the former monopoly continues to provide rural telephone services across a vast country with the world's sixth-largest landmass but only the 52nd-largest population. Even the flashy launch of Telstra's advanced third-generation mobile-phone network, completed months ahead of schedule, struck an awkwardly discordant note. As Mr Trujillo strutted his stuff on stage, a sprinkler malfunctioned, dousing his audience in foul-smelling water.

It is hardly the ideal background for a share offering called T3, the third and final phase of Telstra's partial privatisation, a drawn-out affair which began in 1997. At the T2 offering in 1999, in the midst of the telecoms boom, Telstra shares sold for A$7.40. Now they are trading at A$3.97. Over the same period, the Australian stockmarket has grown by some 93%.

Burned by the T2 offering, many of the 1.6m retail investors who bought shares last time around have shied away, despite a variety of sweeteners to lure them back—not least a 28% dividend on the A$2 first instalment. But as the deadline to apply for shares passed on November 9th, it appeared that wealthier retail investors had offset this weakness in demand, seemingly confident they are being offered decent value for money. Better still, there has also been a positive response from institutional investors in advance of their own offer, which opens on November 15th.

It is a timely vote of confidence in Mr Trujillo's five-year transformation plan. A veteran of the telecoms industry who earned his spurs at US West in America and then at Orange, a European mobile operator, Mr Trujillo has set about drastically streamlining a famously unwieldy corporation. With the help of hired guns from his previous firms—three senior executives were drafted in from US West—he is trying to eliminate 80% of Telstra's 1,252 separate computer systems. He has also laid off 12,000 of the firm's 52,000 employees.

Customer service has improved, too. Much to the surprise of Telstra's long-suffering customers, technicians now make calls in the evenings and at weekends, a revolutionary change. Most arrive dressed in cheery fluorescent yellow bibs, trumpeting BigPond, the company's market-leading broadband service. Telstra claims it is well positioned to offer customers all kinds of whizzy new services across a range of platforms. “Transformation is well on track,” says Greg Canavan, an analyst at Fat Prophets in Sydney. “The big wild card is regulation.”

Regulation is Mr Trujillo's main gripe with the government. In August Telstra abandoned a flagship project to build a high-speed fibre-optic network in the country's five largest cities after a poisonous regulatory dispute with the Australian Competition and Consumer Commission. Agreement could not be reached on how much the company could charge competitors for access to its new network. Telstra grumbles that it is forced to offer rivals, such as Optus, cheaper access to its networks in cities than in rural areas. This places Telstra at a disadvantage when competing for profitable urban customers.

Despite the wrangling with regulators, Telstra's shares are trading at their highest in six months. They

are still below A$5.02, where they stood when Mr Trujillo took over in July 2005. But Telstra's transformation is clearly starting to impress investors—cause, perhaps, for a modest toot on the trumpet.

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Internet video

We try harder

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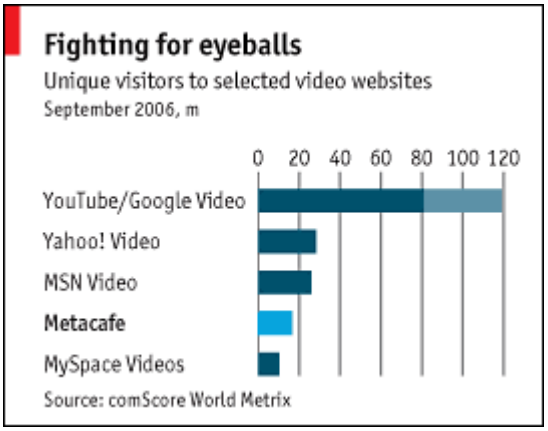
From The Economist print edition

If YouTube is the Hertz of web-based video, Metacafe wants to be Avis



TEN years in the Israeli army, seven of them flying war planes, "teaches you to be aggressive and confident," says Arik Czerniak, the co-founder of Metacafe, a video-sharing website. That certainly helps if your start-up happens to compete with YouTube, the web-video superpower that is being taken over by Google, the biggest search engine. (American regulators approved the takeover on November 3rd.) Although YouTube is skilled at building online communities around video clips, says Mr Czerniak, it appears strangely uninterested in solving two bigger problems that are still holding back the genre of web video: quality control and incentives for contributors. So Metacafe, which is now the largest independent video-sharing site (see chart), is having a go.

The overwhelming majority of videos submitted by amateurs to video sites are dross. Sites like YouTube teem with videos that are duplicates or are so bad as to be unwatchable. A very few clips break out and become wildly popular, but most remain obscure and are simply shared among a few friends. Some 90% of the clips viewed on YouTube are in this "long tail", in the language of statistics, rather than being smash hits.

Like YouTube, Metacafe makes money by selling advertising on its site. But unlike its rival, it makes an effort to choose and promote "good" videos on its home page. First, it rejects duplicates (about half of submissions). Then it uses 100,000 volunteers as film critics—just as Wikipedia, the free online encyclopedia, uses volunteers to write and vet articles. As a third filter, Metacafe then analyses the clips with its VideoRank algorithm, which crunches all sorts of metrics (whether viewers watch a clip to the end, for instance) in order to rank them—rather as Google's famous PageRank algorithm ranks web-search results.

Whether Metacafe's stuff is any good is entirely subjective, of course. Much of the content its volunteers and its algorithm approve is soft porn, and a lot, as on YouTube, violates copyright. But the system does produce statistics that are roughly the inverse of YouTube's: about 90% of the clips viewed are in the statistical "head", not the "tail"—ie, they are popular clips featured on the home page. Counting all views, YouTube is ten times bigger than Metacafe, says Mr Czerniak, who recently moved his company's headquarters from Tel Aviv to San Francisco; but counting only views of the top 200 videos on each site, Metacafe wins by a whisker.

For Mr Czerniak, this matters because it should offer creative types a bigger and more meritocratic platform for getting noticed. An amateur video-artist uploading to YouTube, he says, is like an aspiring actress "driving to Los Angeles and waiting tables to get noticed by a producer". On Metacafe, he argues, if she is good, she could be "promoted on a silver platter". To add a financial incentive for such talented hopefuls, Metacafe has just launched a "producer rewards" system. Other sites have tried this, but Metacafe wants to take it furthest. Under its system, those who upload videos can explicitly license their content to Metacafe and in return get paid $5 for every 1,000 views. During a recent trial run, Joe Eigo, a martial artist from Toronto, made $23,000 with a video of his acrobatic flips and kicks.

YouTube got ahead because "the community really cared about the site, were invested in it and protective of it," says a rival to Metacafe. "There is no substitute for this," he says; paying for content isn't the same. Mr Czerniak disagrees. He reckons that a nexus of "user-licensed" content plus a quality

sieve represents “the next revolution” in web video. Stay tuned.

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Microsoft

You've heard this song before

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Microsoft's shameless imitation of the iPod is just one of many strategic shifts

WHO in his right mind would step into the ring against the iPod? Apple Computer's sleek music-player, and its iTunes software and online store, dominate the digital-music industry as comprehensively as Microsoft's Windows operating system dominates desktop computing. But just as Apple has tried for years to loosen Microsoft's grip on computing, so Microsoft now hopes to loosen Apple's hold on digital music. On November 14th, the software giant will launch Zune, a music-player that looks and works very much like an iPod.

Zune is unlikely “to make any dent at all in Apple's market share,” says Tim Bajarin of Creative Strategies, a consultancy in Silicon Valley. But Microsoft probably has no choice but to try, he adds. During its first 25 years, he says, Microsoft succeeded above all by bringing computer technology to businesses; to succeed in its next 25 years, it must turn its attention to consumer gadgets, for that is where the innovation and growth will be. But the formula with which Microsoft achieved its dominance in the first round appears not to be working in the second. So Zune is based on a very different business model—evidence that Microsoft is changing.

Microsoft's music-player is a device that is tightly coupled to music-library software that runs on a computer, and to Zune Marketplace, an online music store. The Zune device does not work with other online stores, even those of Microsoft's partners; and Zune Marketplace does not offer songs for non-Zune devices. Zune, in other words, is a proprietary bundle of hardware, software and service—exactly like Apple's iPod-iTunes combination.

For Microsoft this amounts to an about-face shocking enough that Robbie Bach, the executive who runs the company's entertainment division and who devised the strategy, goes out of his way to play down its importance. Microsoft's traditional approach is to stay out of hardware and concentrate on making software, such as Windows, which it licenses to as many hardware companies as possible. Competition turns hardware into a low-margin commodity, but Microsoft, as owner of the software standard, makes a fortune.

In recent years, Microsoft tried to use the same approach with consumer technologies. It developed music and video software and invited gadget-makers to build hardware around it, and other firms to build compatible online stores to sell content. This “flat out didn't work,” says Matt Rosoff of Directions on Microsoft, a specialist research firm. In the case of music, Microsoft's PlaysForSure software proved flaky: not all music from all stores would play for sure on all players, and the iPod remained unchallenged.

So Microsoft has ditched the idea of providing enabling software to other firms in favour of Apple's approach of doing everything itself. Its first move in this direction came with its Xbox games consoles, in which hardware, software and an online service are tightly coupled. (The Xbox division also reports to Mr Bach.) Zune is much more controversial, however, because Microsoft's pre-existing hardware and service partners are left high and dry. “I've never seen a business so blatantly screw its business partners,” says Peter Sealey, a professor at Berkeley's Haas School of Business.

The about-turn on digital music is not the only recent shift in Microsoft's strategy. Having campaigned for years against open-source software, it has lately changed its stance. Last month it formed a partnership with Zend, a small Israeli-American firm, to make PHP, an open-source programming language that powers many large websites, work better with Windows. And last week it struck a deal with Novell, a long-time enemy that is now a strong proponent of Linux, the open-source operating system that competes with Windows, to ensure that Windows and Linux can run smoothly alongside each other on big computers.

This does not mean that Microsoft now thinks open-source software is a good thing. It hopes to make Windows more attractive to firms running large websites, and by promoting Novell's flavour of Linux as the natural partner for Windows it hopes to undermine other flavours backed by Oracle, IBM and Sun. But previously it would have nothing to do with open source at all. Steve Ballmer, Microsoft's boss, once called it a “cancer”.

Microsoft has also been shifting its business model for delivering software in response to Google and other firms that let users access e-mail, word processing and other software via the web, rather than installing software on their own computers. The mission of Microsoft's new online-services division is to become, in effect, an in-house Google, while Mr Bach's division does its best to imitate Apple with Zune.

As Microsoft borrows from Apple, the opposite is also true. After failing to defeat Microsoft in operating systems, Apple learned a valuable lesson and has opened up its music technology just enough to make it a standard. It licensed the iPod's connector-plug so that other firms could make accessories for it, and it made the iPod and iTunes available on Windows, something that would once have been unthinkable. The great irony of the epic rivalry between Apple and Microsoft, says Mr Bajarin, is that the longer they fight, the more they resemble each other.

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Face value

Freelancers of the world, unite!

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Sara Horowitz is trying to reinvent trade unionism for today's mobile workforce

THE conventional wisdom is that, for better or worse, trade unionism is in irreversible long-term decline, at least in the world's leading economies. In America, for example, only 12.5% of the workforce now belongs to a union and a mere 7.8% of private-sector workers, down from one-third in 1960. Most forecasts predict that this trend will continue, perhaps until unionism is confined to museums and history books. But Sara Horowitz is determined to prove them wrong.

Ms Horowitz is trying to reinvent the trade union to meet the needs of today's workers—specifically, the fast-growing army of freelancers who flit from one employer to another. These workers have largely been ignored by the traditional trade unions, which are wedded to the shrinking band of workers who expect to spend the bulk of their careers with one employer, particularly in the public sector, where over one-third of workers are still unionised. In 2001 Ms Horowitz launched what is now called the Freelancers Union. Today, with 37,000 members, it has already become the seventh-largest union in New York state, and could soon be far bigger. In the next few weeks it will open a branch in Connecticut, with three more states to follow by next spring. After that it has plans to expand into the rest of the country, and perhaps even beyond.

The Freelancers Union—with a markedly different business model from traditional trade unions which does not involve striking—has its roots in a year that Ms Horowitz spent at Harvard University, a world away from the mines and factory gates where most earlier advances by the trade-union movement took place. Her grandfather was vice-president of the International Ladies Garment Workers Union in New York and her father was a union lawyer, so Ms Horowitz has unionism in her blood. She took her first job with a union at the age of 18. After attending law school, she represented union members in a number of lawsuits until a bizarre dispute over the classification of sous-chefs working in the rich-patients wing of a hospital convinced her that a radical new approach was needed.

“I had an epiphany that existing labour laws and regulations didn't fit the way people were working,” she says. At Harvard's Kennedy School, she set about rethinking unionism from first principles. What do modern workers need? What gives a union power? She concluded that a union is a means for workers to join together to solve problems. To be effective it needs an economic model that makes it independent of government, employers and other institutions. And the biggest problem for freelancers? The lack of health insurance, which in America is mostly provided by employers, and only to permanent staff.

Not for nothing has Ms Horowitz been described as the “quintessential example” of a social entrepreneur—someone who applies the innovative spirit and business discipline of a Silicon Valley start-up to try to solve society's thorniest problems. After Harvard, with seed capital from some charitable foundations, she started a non-profit organisation in 1995 called Working Today to address the needs of freelancers, such as affordable health insurance. She quickly rejected the traditional union model of confrontation and charging membership dues unrelated to benefits received. Instead, with an un-unionlike enthusiasm for the discipline of the marketplace, she adopted a customer-centric approach. She would provide members with a menu of services that they could choose to pay for, thus generating the funds to spend on the union's advocacy of freelance-friendlier labour laws. (Freelancers in America are generally not entitled to unemployment insurance, for example, even if a job they have done for, say, 18 months comes to an end.)

After a couple of false starts, she found a way to use the bulk purchasing power of her members to drive down health-insurance premiums, ultimately by around 40%. In 2001, Working Today launched the Portable Benefits Network (renamed the Freelancers Union in 2003) to provide benefits including education and advocacy, as well as health care, to independent workers in New York's Silicon Alley technology district. Now the union's members—some 13,000 of whom buy its health care, some of them complaining that it is too basic even as they do so—come from industries ranging from finance and alternative health to technology and non-profit organisations. The union has annual revenues of $38m, of which $4m funds advocacy.

Working today, and tomorrow too

There are more ideas where that came from. Next, Ms Horowitz is exploring how to provide something like a 401(k) defined-contribution retirement-savings account to freelancers. In the summer she launched a website with social-networking features that works as a sort of MySpace for freelancers. It boasts a directory that makes it easier for potential employers to find “an acupuncturist, closet organiser, dog walker or whoever.”

Ms Horowitz's most ambitious goal is to raise capital to start a new permanent institution that would provide services such as health care to members. She is seeking investors who want to make money, but will accept a below-market rate of return. “I want to create an institution that is around long enough and is nimble enough to meet the needs of my members in 2020, not just 2006,” she says. Ironically this progressive idea is inspired, she says, by some past giants of American trade unionism, above all Sidney Hillman, president of the Amalgamated Clothing Workers of America, who created lasting institutions such as the Amalgamated Bank, Amalgamated Life Insurance and Amalgamated Housing. “Compared with the bosses of the firms they were going up against, the early labour leaders were the geniuses,” says Ms Horowitz. That is not something anyone would say of today's union leaders—with the notable exception, perhaps, of Ms Horowitz herself.

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Airbus

The making of a jumbo problem

Nov 9th 2006 | LONDON, PARIS AND TOULOUSE
From The Economist print edition

Reuters

A botched privatisation at a bargain price started the storm that helped bring Airbus down to earth

Get article background

AS FRENCH stock-exchange regulators investigate share sales by Noël Forgeard, a former co-chief executive of European Aeronautic Defence and Space, questions are being raised about a controversial deal that eventually led to the creation of EADS, the parent company of Airbus. This was a privatisation overseen by a former finance minister, Dominique Strauss-Kahn, who is one of two rivals to Ségolène Royal in the contest next week for the Socialist candidacy in the 2007 French presidential election.

The deal was supposed to provide Airbus with a long-term French private-sector shareholder. Instead it risks driving the now-ailing aircraft-maker back into increased state ownership.

The tale is a sorry one: of a Socialist government selling off a state company—Aérospatiale (a leading partner in Airbus)—at a bargain-basement price to a firm belonging to an influential entrepreneur; of his protégés spending more time fighting each other than attacking Airbus's rival, Boeing; and of the new owner baling out at a vast profit, in part by selling shares back to the government, just before the scale of the mismanagement was made public.

The deal that doomed Airbus has its origins in the late 1990s. Back then a series of American aerospace mergers left the fragmented European aerospace industry looking outgunned. Rationalisation was badly needed. There was growing pressure to convert Airbus into a fully-fledged private company.

Airbus's German partner, DaimlerChrysler, and its British one, BAE Systems, were listed companies. They had no wish to merge their aircraft interests with Aérospatiale. The state-run French company's most valuable asset was its 37.9% share in the Airbus consortium. If the British and German firms were to merge, as they once planned to, France would end up as a junior partner in Airbus, an enterprise which is synonymous with French national pride. So Aérospatiale, which had been the French partner in the Concorde supersonic passenger jet and was the maker of Exocet missiles, had to come under private control.

Enter the Lagardère group, which has diverse businesses from magazines to missiles. It was founded by

Jean-Luc Lagardère, who died in 2003. He was an astute entrepreneur who built a business empire with the help of his talent for hiring bright, well-connected civil servants. One of these was Mr Forgeard, a former adviser to Jacques Chirac in his time as prime minister before he became France's president. Mr Forgeard joined Matra, a defence firm, in 1987. Another useful attribute of the group was a media business that included the Europe 1 radio station, France's only Sunday national paper and *Paris-Match*. This ensured Mr Lagardère was courted by politicians, which put him in a powerful position when the government contemplated how to privatise Aérospatiale.

For the benefit of France

The terms of the deal were hammered out by Mr Lagardère and Mr Strauss-Kahn. Lagardère got 31.5% of Aérospatiale in return for folding into the company its defence-aerospace business, Matra Hautes Technologies (MHT). Lagardère would own one-third of the merged firm and have management control. The understanding was that Lagardère would always be the principal French private shareholder; the idea was to secure the group's future with a strong core shareholder—what the French called a *noyau dur*. The government would reduce its two-thirds share to 48% by selling 17% of the shares to the public. The terms were generous to Lagardère: Aérospatiale was by any measure (sales, assets, employees) at least three times bigger than MHT, a comparative minnow.

AP

An Airbus pair: Noël Forgeard and Arnaud Lagardère

News of the deal emerged in late July 1998, just as the French were packing their suitcases for their holidays. It was completed in June 1999 once all the formalities had been gone through. Part of this process was a review of the deal by court-appointed accountants. Their job was first to ascertain whether the MHT shares were worth at least their value of €618m in Lagardère's books. This they had no trouble doing, and their report is a matter of public record. The trickier task was to justify the one-third share of the much bigger company allotted to Lagardère. Their full report on this aspect is not a matter of public record, but their findings are contained in a document, a copy of which was obtained by *The Economist*, that Aérospatiale Matra had to file with the French stock exchange before the sale of shares to the public.

The experts clearly found themselves in a difficult position, as they noted. The document talks of “three key limiting factors” in their assessment process which “could affect the exchange value to an extent that it is difficult to put into figures.” One factor was “limited or late access to certain important information”. Another was “uncertainties beyond the normal range of forecasting” and a third was “assumptions underlying the preparation of cash-flow projections”. The basic justification for handing over as much as one-third of the shares to Lagardère was the strategic importance of the transaction for the French aerospace and defence industries and “risks for the Lagardère group”.

One leading Paris analyst, Jean Gatty, put a value on MHT in the range of €750m-1.4 billion. After the first day of dealing in the shares of Aérospatiale Matra, the one-third stake that Lagardère got in return for MHT was worth €2.8 billion. No wonder that at a recent aviation conference in Monte Carlo, attended by the legendary former Airbus boss, Jean Pierson, an Aérospatiale man to the core and whom Mr Forgeard replaced shortly before the deal, Airbus alumni were calling it “the hold-up of the century”. Airbus veterans are bitter at what “the Lagardère boys”, as they are known within the aircraft-maker, have done to the organisation they built up to take on Boeing.

In-flight manoeuvres

Several months after its creation, Aérospatiale Matra announced a merger with the aerospace arm of DaimlerChrysler to form EADS (a Spanish government body owns a 5.5% share and BAE Systems has since sold its Airbus stake back to EADS). Lagardère's right to control the management of Aérospatiale Matra translated into the right to nominate the four French directors of the Franco-German company. The two-headed nature of the firm meant it had to have a French and a German chairman as well as two chief executives, one from each country. This cumbersome structure was bad enough, but longstanding rivalry between Mr Forgeard as chief executive of Airbus and another Lagardère boy, Philippe Camus, his superior as initial French chief executive of EADS, made it progressively dysfunctional. Tensions grew not only between the French and the Germans but also between the parent company and its Airbus subsidiary (which accounted for four-fifths of its profits).

By the time Mr Forgeard had taken the reins at Airbus in 1998, its A320 and A330 models were flying off the shelves. Its new super-jumbo, the A380, was already being developed and the company was beginning to catch up with Boeing. Mr Camus had become the most senior figure in the Lagardère group next to its founder and chairman. On his way up the corporate ladder, Mr Camus used to report to Mr Forgeard, when the latter was running Matra Défense before leaving Lagardère to become boss of Airbus. But the Franco-German merger propelled Mr Camus to the top EADS job, and the tables were turned. Knowing that Mr Camus and his German counterpart had five-year contracts, due to expire in 2005, Mr Forgeard started to manoeuvre to replace Mr Camus. Not only that, he wanted to be the sole chief executive—which antagonised the Germans, always nervous about French attempts to dominate both EADS and Airbus.

Mr Forgeard's main claims to the top job would be Airbus's achievement under him of overtaking Boeing and the successful launch of the A380. The last thing he needed was any bad news about this ambitious project. By the time a six-month delay became public, he had already been named as the French chief executive of EADS. He had to share with a German, but he managed to hold on to oversight of Airbus. Arnaud Lagardère, son of the group's founder and by then its boss, had a preference for keeping Mr Camus. But Mr Forgeard had a more powerful mentor, his old boss, now the president of the republic. According to a recently published biography* the young Lagardère's hand was forced by a threat to cause inheritance-tax problems over his late father's estate. The head of the then finance minister's private office told the author of the biography the pressure put on Arnaud Lagardère came at the express wish of Mr Chirac.

So a diktat from a right-wing president of the republic provided a dramatic twist to the tale. Mr Forgeard, who was fired last summer as mounting problems rocked the company, sold 162,000 EADS shares and members of his family a further 128,000 last March, only weeks before news about delays to the Airbus A380 became public. They pocketed a profit after tax of €2.5m on the transactions. Investigators are concerned that Mr Forgeard might have been aware that further delays to the programme, which was already running six months late, would soon be announced.

In early April the Lagardère group agreed to sell half its 15% stake in EADS for €2 billion ($2.5 billion), or the equivalent of €32.60 a share. It was a week before more delays to the Airbus A380 became known to the board of EADS, according to Mr Forgeard. The programme was already running six months late. Lagardère had been looking to reduce its holding for three years. Questioned about the sale, Arnaud Lagardère said: “I have the choice of appearing dishonest or incompetent...I plead the latter.” Since the full extent of the delays has emerged, EADS shares have fallen to €21. The ensuing cash-flow loss is now reckoned to be €6 billion over the next four years.

A French state-owned bank, CDC, signed up for nearly one-third of the shares that Lagardère was selling. This purchase was intended to keep the French stake (the government owns 15%) superior to Germany's share of EADS. Because of the slump in EADS's share price, the French bank is now sitting on a loss of €200m on the stake it agreed to buy for €600m. This, and the earlier privatisation, mean that the French taxpayer has twice got the worse of a deal with Lagardère.

In oral evidence to a French parliamentary committee in June, Mr Forgeard denied that he (or other insiders who sold shares in March) had done anything wrong. One insider who did not sell was Mr Forgeard's German counterpart, Tom Enders. He thought it was inappropriate to sell because of the impending sale of 7.5% by DaimlerChrysler, the company which had appointed him as co-chief executive. The sale of the German company's shares will reduce its stake to 22.5%.

One consequence of the mess at Airbus could be that the French, German and Spanish governments may even end up increasing their stakes as DaimlerChrysler and Lagardère sell further shares. If so, it would mean privatisation and re-nationalisation in less than a decade, which may not do Airbus any good at all.

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* “Arnaud Lagardère: L'Insolent”, by Thierry Gadault. Maren Sell Éditeurs, 2006.

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Private equity

Under the microscope

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Regulators put buy-out firms under scrutiny, but market forces may well be a tougher challenge for this booming investment sector

FIRST it was hedge funds, now private-equity firms. From the executive suites of Europe's biggest companies to the bureaucratic cubicles of Washington, DC, there are growing calls for stricter oversight of buy-out firms, which lately have marched from one big takeover to another. The most recent (though failed) bold stroke—a €40 billion ($51 billion) offer for Vivendi of France by Kohlberg Kravis Roberts—has galvanised critics, who claim good corporate citizens are under siege.

Now the regulators are weighing in. On November 6th Britain's Financial Services Authority (FSA) issued the first in-depth review of private equity by a top supervisory body. Its preliminary conclusions are that the biggest buy-out firms and their lenders deserve closer surveillance in several areas, but pose no broad risk to the financial system. The European Central Bank has also voiced concern over the growing exposure of banks to debt-hungry buy-out vehicles; but it, too, sees no cause for panic.

In America, the world's largest private-equity market, the Department of Justice is said to be expanding its investigation of “club” deals, in which big firms have teamed up to launch large bids. The worry is that they may be anti-competitive. Suddenly private-equity lawyers are popping up everywhere.

As a growing number of pension funds and insurance firms take leading stakes in private-equity firms, the future of the sector may rest more with market forces than with regulators. Here, too, things look a bit murkier. For one thing the days of cheap money cannot last forever—though they have proved more enduring than many had thought possible. And the growth in the number of funds chasing a finite number of assets also creates problems. It makes targets more expensive, requiring more debt to make a purchase. Once acquired, companies are held for shorter periods than in the past, leaving less time to knock them into shape.

So far it is hard to detect a slowdown. The number of buy-out deals surged to 2,677 in 2005 (with a value of about $326.5 billion), up from about 1,200 deals (worth about $108 billion) in 2002, according to Thomson Financial, a data provider. The pace has picked up this year, with more than $542 billion in deals done.

Institutional investors have been lured in by strong performance. The average annual return on private equity has topped 13% over the past two decades, Thomson says, with stronger returns in the past few

years. Data compiled by the British Venture Capital Association show that pension funds alone accounted for 31% of money raised by private-equity funds in Britain last year.

This, in turn, has prompted some of the calls for tighter regulation. The FSA paper identifies seven areas of potential risk coming from private equity, but labels only two of them—potential conflicts of interest and market abuse (use of price-sensitive information)—as highly significant. In response it has increased its scrutiny of credit markets and established an in-house team to monitor the sector. The FSA will focus on supervising the 14 largest firms among about 250 it monitors. This is broadly the strategy that it uses to keep tabs on the hedge-fund industry.

A lesser risk, in the regulator's view, stems from the levels of debt used to finance private-equity deals. This, it says, is being monitored through lending banks, which have increased their loans to private-equity firms over the past year.

A high-profile example from America highlights one potential risk of so much debt. After a consortium of private-equity firms made a $33 billion offer this year for HCA, a big hospital operator, Standard & Poor's moved its corporate credit to B+, down three notches. David Peknay, of the ratings agency, says HCA will pay $1.5 billion more interest a year as a result. “This debt load handcuffs their capabilities.”

Yet private-equity firms and their advisers bristle at suggestions that they are borrowing recklessly. “Buy-out firms put huge efforts into risk reduction,” claims Patrick Dunne of 3i , one such firm based in London. Others say there is a bit more caution about debt in general. “The appetite for the most crazy deals is down,” says Jonathan Guise of Blenheim Advisors, a debt-financing consultancy for private-equity firms. “Leverage has reached its peak. The banks are starting to realise they don't want to push it too much further.” Data from S&P confirm that the amount of equity put into leveraged deals has stabilised, though it remains high.

Today the risk in private-equity deals is spread more broadly than in the past. Just two years ago the lending market consisted largely of banks that operated in a relatively standard fashion. Now a range of non-bank institutional investors—from asset managers to hedge funds—hold most of the debt. “I'd estimate that in the next six to 12 months in Europe, only 30% of syndicated debt will be held by banks,” says Mr Guise. The existence of a secondary market spreads risk further. “If every investment made by Blackstone [a big buy-out firm] were suddenly to go south tomorrow—and that's not going to happen—I don't think there would be any systemic risk,” reckons Andrew Metrick, a finance professor at the Wharton School.

Yet he and others agree that the market cycle is at or near its top, particularly in America and Britain. Prospects look better in continental Europe (worries about Vivendi notwithstanding). “There are so many big lazy companies that can benefit from private equity,” notes Senia Rapisarda of London Business School.

Given the less exuberant mood in private equity today, it is perhaps not surprising that some firms are seeking permanent capital through public markets, either by floating funds or parts of the firms themselves. This could be a sign of managers seeking a graceful way to get their own money out. A little more transparency would indeed be welcome. But private equity has done far too well operating in the shadows to let in any more than a pinprick of light.

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About sponsorship

Buttonwood

Premium bonds

Nov 9th 2006
From The Economist print edition

Buy now, worry later

FEAR and greed are supposed to govern financial markets. Right now, investors seem far more like lumberjacks at an all-you-can-eat buffet than claustrophobes trapped in a lift. Despite nagging concerns about the American economy, global stockmarkets are at multi-year highs. Takeovers are booming and bankers on Wall Street and in London are counting on bumper bonuses. Even the influx of protectionists into America's Congress has been met, by and large, with a shrug.

If there is one market that sums up the insouciant attitude to risk, it would have to be corporate debt. After an extremely good run, the difference between the interest rate companies pay and that which (much safer) treasury bonds pay has fallen substantially. Until recently, most investors expected that as the American economy slowed, companies would run into difficulty, forcing those borrowing costs higher.

But it hasn't and bankers are coming up with increasingly ingenious ways to offer fixed-income investors additional returns. Enter the newest symbol of the corporate-bond bonanza: an instrument known cryptically as the constant proportion debt obligation, or CPDO.

CPDOs are built on the back of credit-default swaps—the greatest credit innovation of the past decade—which give investors the chance to insure against a company going bust. Now CPDOs offer the same option for an entire index. And with the help of a lot of borrowed money, they offer some juicy returns.

Like a swap, issuers of CPDOs get premium income upfront but have to pay out if a company in the index defaults. The beauty of the structure is that the insurance is sold only on a rolling six-month basis. The chance of one of the index's components defaulting within the next six months is very low. Even if the company's finances do deteriorate, it will probably be dropped from the index by the time the six months are up.

That means the credit agencies are happy to award CPDOs their highest (AAA-style) rating. But unlike other top-rated debt instruments, CPDOs pay a succulent interest rate of as much as two percentage points over cash.

Gary Jenkins of Deutsche Bank points out that, historically, investors have been overpaid for the default risk on high-quality corporate bonds. CPDOs take advantage of this anomaly. They employ another gimmick, too. If the markets move against them, the issuer borrows more money to sell more insurance. The extra premiums earned make up for the capital loss suffered in the market. In theory, a CPDO could have 15 times more debt than capital.

The structure was pioneered only in August, and has yet to be tested in a crisis. However, Georges Assi of Lehman Brothers says it is inherently market-stabilising: CPDO issuers will be buying when others are selling.

The CPDO craze is just one sign of investors' appetite for corporate debt. Sales of corporate bonds and leveraged (high-risk) loans are breaking records. Investors are happy to take the extra yield today and worry about the risk later.

Similar *sang froid* is being displayed about America's stockmarket. By the start of this week, the S&P 500 index had not fallen by 1% in 111 days, one of its longest winning streaks in the past 25 years.

If investors were worried about losing those gains, they would be paying up for options to protect against a sudden fall in share prices. But the VIX index of American stockmarket volatility (a measure of the cost

of buying options) was close to a ten-year low in late October.

Why this confidence? The fall in oil prices since August has been a great help, at a stroke both bringing down headline inflation rates and boosting the incomes of consumers. It helps, too, that company profits in America are still growing at a double-digit annual rate. According to Lehman Brothers, positive surprises in the third-quarter results are outpacing negative ones by almost five to one.

Good news, for sure, but isn't there too much complacency? America's recent economic data have sown confusion (see article), but even where the news has appeared positive, dangers lurk. The biggest threat for companies is that unit labour costs are growing faster than 5% a year. A combination of slower overall growth and rising wage costs should squeeze profit margins. With profits at a 40-year high as a share of GDP, it is hard to see the news getting much better.

But though investors may realise that something is bound to go wrong eventually, getting the timing right is a completely separate question. Over the past three years, those who have acted out of fear have generally lost money. With tasty morsels such as CPDOs on the table, greed is the much more tempting option.

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America's economy

Down but not out

Nov 9th 2006 | WASHINGTON
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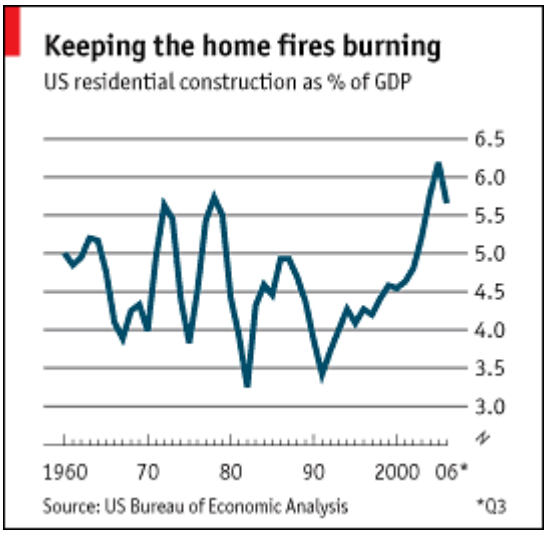
It's not the election, stupid. The big question on Wall Street is the economy

RARELY have Wall Street's seers been so split. Not only are they divided about where the economy is headed, they even disagree about how it is faring today. Pessimists, such as Nouriel Roubini of Roubini Global Economics, reckon output is slowing from its already desultory pace of 1.6% a year in the third quarter and that recession is imminent. Optimists say GDP growth is rising after a weak summer. After analysing bond, equity and credit markets, Stephen Jen of Morgan Stanley recently argued that the risk of recession was only 13%, down from 19% a month before.

How can opinion be so divided? The glib answer is that America has two economies: residential construction and car production are in a slump, but the rest is still chugging along. Such resilience is why the jobless rate fell to 4.4% in October, its lowest since 2001, and why both wages and hours worked grew smartly. But how sustainable that is depends on whether the sectoral declines worsen and spread.

Whether you look at housing or manufacturing it is hard to avoid some pessimism. Despite Alan Greenspan's recent declaration that the worst of the housing bust is over, the evidence suggests otherwise. The pace of decline in residential construction may (perhaps) have peaked, but the size of inventories and the weakness of demand suggest builders will be cutting back for many months yet, and that prices have farther to fall.

Stephen Roach, also of Morgan Stanley and a well-known contrarian, points out that less than a third of the run-up in construction spending over the past decade has been reversed. As a share of GDP, residential investment is still far above its long-term average (see chart). And even if the worst is over for house builders, it may not be for the construction industry as a whole. Up to now, non-residential construction—the building of offices and shopping malls—has been booming. But September's figures suggest that this, too, is losing steam. And the cuts are finally translating into fewer jobs. Overall, the construction sector shed 26,000 jobs in September. More lay-offs seem inevitable.



The news from manufacturers is also likely to get worse rather than better. Industrial production was flat in August and fell in September. Surveys of purchasing managers in October bode ill for the coming months. Carmakers are slashing production to reduce big inventories. The housing bust is hitting too. The production of housing-related goods—such as appliances and furniture—has fallen.

No matter, argue the optimists. The overall labour market is tight, wages are up and petrol prices have fallen. With wage income up almost 3% in real terms, spending will remain firm and the economy will rebound from its third-quarter lull.

This logic is sound, but there is little evidence, for now, to support it. Despite more pay and cheaper petrol, there are few signs that consumers splurged in October. According to Merrill Lynch, 62% of retailers missed their sales estimates. Wal-Mart had a particularly feeble month and expects sales to be flat in November. With their homes worth less, more Americans may be saving their wage gains rather than heading to the mall. The household saving rate, although still negative, rose from –0.8% in July to –0.2% in September.

Unless spending picks up as Christmas approaches, demand growth in the fourth quarter of 2006 is likely to be little better than in the third. It does not mean, however, that a full-blown recession is inevitable. Even if job losses in construction and manufacturing begin to push up the unemployment rate, the labour market will still be tight. With jobs plentiful and wages rising, consumer spending is unlikely to collapse. Slow growth and gradually higher saving is a less dramatic outcome than either the pessimists or optimists predict. But it has the advantage of being just what the economy needs.

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About sponsorship

Petrol taxes

Pigou or NoPigou?

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An old debate gets a makeover in cyberspace

ARTHUR PIGOU, an early-20th-century British economist, might well have shuddered at the thought of Facebook.com, a student networking site. A hermetic academic, awkward in the company of women, he surely would have balked at the dating and the picture uploads. But what would he have made of the "Pigou Club", which has surfaced on Facebook and is giving him unprecedented—even cultish—exposure?

His appearance on the internet is down to a contemporary economist clearly at home in cyberspace: Greg Mankiw of Harvard University. For months, Mr Mankiw, a former adviser to George Bush, has been blogging away in support of "Pigovian taxes" on petrol, believing that a levy of $1 a gallon would not only bring America $100 billion of extra revenue but might also reduce global warming.

With his Pigou Club Mr Mankiw has whipped up a following behind an economist whose theories on unemployment came under attack from his colleague, John Maynard Keynes. On Facebook, 600 people have signed up to the Pigou Club. Mostly students, they join other Pigovians such as Larry Summers, Gary Becker, and Kenneth Rogoff.

Pigou advocated taxation as a way to combat the negative externalities, or side-effects, associated with certain activities. These have been used to justify levies on cigarettes, alcohol and even traffic congestion. Their advocates argue that they could be used to wean Americans off their dependence on petrol, which degrades the environment, props up unsavoury regimes and clogs traffic.

But governments are not perfect arbiters, say opponents of the Pigou Club. In the spirit of Ronald Coase, an intellectual nemesis of Pigou, a NoPigou club has taken shape on the internet, with its own Facebook following (though with only 59 supporters so far). Coase claimed that a Pigovian tax would penalise producers and consumers and might have other undesireable side-effects. People should be able to negotiate among themselves when there are side-effects, he said. Terence Corcoran, editor of Canada's *Financial Post*, writes a NoPigou blog, arguing that such taxes are blunt instruments and governments have insufficient information about them to wield them properly.

Pigou did indeed accept that point, albeit rather late in life, so it is unclear how he would have felt about petrol and global warming. One thing, however, is certain: the reclusive outdoorsman would have found the effects of internet fame decidedly taxing.

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About sponsorship

Auditing firms

Opening the books

Nov 9th 2006 | FRANKFURT
From The Economist print edition

An attempt to make accounting a popular pastime

IT COULD be seen as a cry for help: the world's biggest accounting firms on November 8th unveiled their vision for the auditing business of the future. In their Utopian fantasy, out would go quarterly reports loaded with complex historical figures and rules-dictated footnotes. Instead, readily accessible updates on a company's state of health would be posted in (almost) real time on the internet.

Not only would this put more onus on companies to post meaningful, rather than selective, information on their websites; it would also conveniently reduce the potential liability of the auditing company. An auditor would apply principles, not rules, to judge the fairness of a company's numbers. And the judgment would be a rolling opinion, not one set in stone at the end of each reporting period.

Neat, it is true, yet a bit naive. The beancounters are right that few investors or analysts use financial reports as anything more than a rear-view mirror these days. They would prefer forward-looking information including “soft” data on customer relationships, staffing levels and product development.

But whether such information can be standardised enough to be computer-readable for comparison on company websites is questionable. So is the likely effect on share-price volatility of quasi real-time data: would it make some investors even more short-termist in their outlook? And how would the market cope with the inevitable revisions?

There are other practical difficulties. After years of toil, auditing firms are still wrestling to reconcile America's rules-based GAAP (generally accepted accounting principles) with their international counterpart, IFRS (international financial reporting standards), which rely more on broad principles. And some companies doubt the wisdom of IFRS at all.

Partly, their exercise appears to be a clever attempt to deal with an issue that continues to dog the accounting profession, especially the biggest practitioners: limiting the potential liability for frauds and misstatements which they fail to detect. They and their regulators are haunted by the disappearance of Arthur Andersen in 2002 in a welter of litigation after the collapse of Enron. The big four, consisting of PWC, Deloitte, Ernst & Young and KPMG, could possibly become three or even fewer if too many of those lawsuits went against them. A study for the European Commission published last month recommended a cap on liabilities to discourage such a catastrophic outcome.

Critics of the big four argue that auditors are well paid for the risks that they run, and that legal pressures are the only way to keep their feet to the fire, ensuring high-quality work. But the big audit firms believe the risks are disproportionate.

Against that background, they have started a process that they hope will lead to more appropriate and less risky audit practices. They argue that the risk of ruin not only makes it hard for them to retain top staff, but it also stops competitors from entering the market. In such an environment, it is no doubt galling that the reporting exercise that firms and their auditors are expected to go through is increasingly seen as meaningless and irrelevant.

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Life insurance for HIV sufferers

South Africa rethinks

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Life insurers are helping to change perceptions about AIDS

Get article background

Reuters

Something else to shout about

DIAGNOSED with HIV 23 years ago, David Patient thought he would never see the day when he could insure his life. Until the launch late last year of AllLife, an innovative insurance newcomer, the few life insurers taking on clients with HIV offered very limited cover and charged prohibitive premiums. But AllLife is specifically targeting customers carrying the virus, offering them more affordable insurance for up to 3m rand ($410,000). They are now able to protect their loved ones and get mortgages. This is changing perceptions of a disease often considered to be a death sentence.

The average probability of AIDS death in South Africa would appear to make life cover prohibitively costly for people with HIV. But extremes rather than averages apply to HIV/AIDS: people who monitor their health and are treated tend to do well; most of the rest die quickly when AIDS sets in. The first group's risk profile is no worse than diabetics', according to AllLife. To maintain their cover, clients have to go for regular blood tests and take antiretroviral medication when needed. AllLife sends reminders for tests and monitors results. This helps clients to stay alive—and AllLife to keep risks down. Although its cover costs two to five times more than standard life insurance, it is much cheaper than what was available before.

With 5.5m people thought to carry the virus, South Africa is in some respects very innovative. AllLife runs ahead of the pack, but at least the rest of the industry no longer refuses to pay for customers who tested negative for HIV when getting cover, but later die from AIDS. AllLife receives applications from around the world, including America, Japan and Europe. It only covers South African residents now, but is planning to expand into neighbouring Namibia next year.

After dragging its feet, South Africa's government has now rolled out treatment for AIDS, and about 250,000 people are receiving antiretrovirals from the public and private sectors combined. This falls short of the 800,000 or so AIDS sufferers thought to need drugs, however. For many insurers, the risk remains too unpredictable and the number of people who can afford insurance too small. But AllLife believes the size of its potential market to be 2m people—that's the number of HIV-positive South Africans earning more than a modest 2,500 rand a month. So far half of its clients earn much more than that. Less than a year after it was launched customers are only in the hundreds. This is ahead of projections, but the company will need many more to be profitable. To expand distribution, it has recently hired brokers—who charge reduced commissions—and is considering mass advertising.

It is a tough challenge. Life insurance remains beyond the means of millions of South Africans—whether they carry the virus or not—and very few apply for cover. Many of those who discover they are HIV positive withdraw because of confidentiality fears. But according to the Life Offices' Association, an insurance body, some established firms will soon come up with affordable products, too. It took decades before diabetics could insure their lives; let's hope people with HIV do not need to wait much longer.

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Economics focus

Sticky situations

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Economists are learning more about a fundamental question: how often do prices change?

FROM Washington to Wellington price stability is the desire of central bankers. Many of them have it, more or less: consumer-price inflation is 2.1% in America, 1.6% in the euro area, 2.4% in Britain and 0.6% in Japan. You might suppose that because the overall price level is not changing a lot, nor are individual prices. That is not necessarily so, as economists in both America and Europe are discovering.

How often individual prices move is an important question. Shifts in prices are like the traffic lights of an economy, signalling to people to buy more of this and less of that, to spend or to save, or to find new jobs. If the lights change readily, resources can be redirected smoothly; if they get stuck, so does the economy. In particular, if neither prices nor wages fall easily, the cost in output and jobs of reducing inflation can be high. Sticky prices also mean that an inflationary shock—an increase in oil prices, say—can take a long time to work its way through the system.

Although of great macroeconomic significance, the evidence on price stickiness lies in the microeconomic detail of thousands upon thousands of prices. Until recently, economists have known remarkably little about how often and by how much prices change, because the information needed is vast and often secret (ideally you want the numbers underlying consumer-price indices, for example, or readouts from supermarkets' scanners). Lately, however, several researchers have got their hands on useful data, and have been sifting them.

Most of the early work was done in America, and much of it looked at the prices of only a few things, such as magazines on news-stands or mail-order goods. It concluded that these prices changed only about once a year. However, a paper published in 2004 by Mark Bils, of the University of Rochester, and Peter Klenow, of Stanford University, found that most prices change more often. Messrs Bils and Klenow used data on 350 goods and services collected by the Bureau of Labour Statistics for calculating the consumer-price index. They reckoned that in 1995-97 half of these prices changed at least every four or five months.

New research by Emi Nakamura and Jon Steinsson, both graduate students at Harvard, points out the importance of sales and special promotions in the frequency of American price changes. Sales are much more common in some markets than in others, accounting for 87% of price changes for clothes (think of clearance sales), 67% in furniture (all those half-price sofas) and 58% in processed food (baked beans are on special offer again), but none in vehicle fuel or utilities and scarcely any in services (when did your lawyer last offer you a discount?). After the effects of sales and special offers were stripped out, the median duration of retail prices lay between eight and 11 months in 1998-2005. Including sales cuts the duration by half, bringing the results roughly into line with those of Messrs Bils and Klenow. It also matters, but only a bit, that Ms Nakamura and Mr Steinsson studied a later period, when inflation was slightly lower: they note that high inflation leads shops to raise prices more often.

What price a flexible Europe?

The evidence from the euro area, fruit of a three-year project co-ordinated by the European Central Bank and completed this year, suggests that prices there change less often than in the United States. The European economists found that retail prices change every four or five quarters. Removing the effects of cut-price sales, where data were available, made little difference: sales, it seems, matter much less than in America. That result fits in with the common view of the euro zone as having a less flexible and nimble economy than America. Nevertheless, Europe is far from rigid: more than 40% of the price changes

recorded were cuts, much the same as estimates for the United States. Price changes in Europe, when they happened, tended to be big, whether up or down: the average increase was 8% and the average cut 10%, against inflation of 2% or so. Changes in American prices, in both directions, are also much larger than the overall inflation rate.

On both sides of the Atlantic the frequency of price changes varies enormously. Generally speaking, the greater the share of raw materials in a product, the more often its price moves: petrol prices change, on average, in five months out of six in both America and Europe; the prices of fresh food are altered far more frequently than those of processed food. The prices of services are stickier than those of goods. This may be because services tend to be more labour-intensive than goods, and because wages are stickier (downwards, anyway) than other prices. This seems to be especially true in Europe: the continent's labour markets are gummier than America's and services are more regulated. Less than 6% of the service prices in the euro-zone research change each month. In America Messrs Bils and Klenow put the frequency at around 20%; Ms Nakamura and Mr Steinsson say 44% for travel and 9% for other services. However transatlantic comparisons are clouded by differences in the services covered.

What can monetary policymakers learn from this research? By and large, they should probably be heartened by it, and not only because it tells them a great deal about how their economies work. The European economists say that inflation has become less persistent over time, as monetary policy has become concentrated on price stability and on keeping inflationary expectations low. And the evidence on price stickiness may make central bankers on both sides of the Atlantic more confident of keeping inflation low—in theory, a hard task if prices rarely fall. The research suggests that prices fall fairly often: central banks as well as consumers can give thanks for all those cut-price tins of beans.

SOURCES

Mr Bils's and Mr Klenow's paper, "Some Evidence on the Importance of Sticky Prices", appeared in the *Journal of Political Economy* in 2004. A PDF version can be found here. Ms Nakamura's and Mr Steinsson's paper, "Five Facts About Prices: A Reevaluation of Menu Cost Models" is online. This article draws on the version dated November 6th 2006. The European research on price stickiness can be found in several papers on the European Central Bank's website. The main results are summarised in "Price Changes in the Euro Area and the United States: Some Facts from Individual Consumer Price Data", by Emmanuel Dhyne and others (*Journal of Economic Perspectives*, Spring 2006) and in "Inflation Persistence in the Euro Area: A Summary of the Inflation Persistence Network Evidence", by Filippo Altissimo, Michael Ehrmann and Frank Smets (National Bank of Belgium working paper no.95, October 2006). This was presented at a conference on price and wage rigidities at the NBB in October. The other papers are also on the bank's website.

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Green aircraft

Silent skies

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From The Economist print edition

How a military design could carry passengers if people learned to love it—but its fuel efficiency, not its quietness, is what matters most

Alamy

ANYONE who lives on a flight path knows how noisy aircraft can be as they come in to land. At Heathrow airport in west London an aircraft lands every 45 seconds, starting at four o'clock in the morning and continuing until almost midnight. The direction of the prevailing wind means that for most of the time the planes must fly over central London. Because the airport is often congested, aircraft are frequently directed to circle over the capital, increasing the misery. More than 1m people live under the flight path into Heathrow and the Department of Transport in Britain estimates that 375,000 people are affected by the noise to the extent that conversation is regularly and frequently interrupted. So the unveiling of a design for a new “silent” aircraft this week was met with uncritical approval.

Actually the design is anything but novel. The idea to create an aeroplane based on a blended wing and body, one that looks like a flying wing, is an old one. Stealth bombers, for example, are flying wings. What the researchers have done is to modify the design to make the aircraft quieter. The work is part of a wider effort to mitigate the environmental impact of aviation: not only the noise it makes, but also the air pollution close to airports and the impact of emissions at high altitudes on climate change.

Aircraft are at their noisiest when they come in to land. About half of this noise is generated by the engine, with the exhaust and the fans being the biggest culprits. But the frame of the aircraft itself is to blame for the other half: the bumpy air flow over the undercarriage and the slots and flaps of the wings creates the rest of the racket.

Swooping down

The design by researchers at the Massachusetts Institute of Technology in America and the University of Cambridge in Britain, made in collaboration with companies including Boeing and Rolls-Royce, eliminates this disruption by smoothing the air flow. The researchers envisage a mid-range aircraft that would carry 215 passengers. Its top speed would be 0.8 Mach—that is, 0.8 times the speed of sound or around 600 miles per hour, slightly slower than the coming generation of airliners. Indeed, it is a slower speed that enables such an aircraft to be so quiet: it would drift in to land rather than powering in, all engines blazing, as today's jets do. Its low approach speed, combined with steep climbs and descents, would make it inaudible outside the airport.

Existing aircraft engines would be replaced with a new design that was embedded in and slightly above the body of the aeroplane. Three engines would each drive three fans that are smaller and thus easier to quieten than current ones. The engines would have variable nozzles, which would be fully opened on take-off and landing, so that the exhaust would be slow and relatively quiet, and narrowed when the aircraft was cruising, providing the necessary speed. The aircraft would be made from composites that smoothed the airflow; the design has no slots or flaps.

The idea is similar to a design that Boeing once toyed with. Passengers would sit in a wide cabin, rather like a small amphitheatre. But tests with a mock-up produced such a negative reaction that the company all but dropped the technology, except for use in military refuelling aircraft. If it is to be revitalised, as the researchers hope, people must learn to love the new seating arrangement. In particular, the aircraft is unlikely to have any windows because passengers will be huddled together in the centre of the airliner, surrounded by cargo and fuel. Projections of the surrounding view around the cabin might help to put them at their ease.

The passenger aircraft is currently a conceptual design. There are many challenges that would have to be overcome before it could become a reality by 2030, as the researchers hope. Not only would passengers have to accept windowless flight, but several technical problems would also need to be overcome, including the need to manufacture pressurised cabins that are not the standard tubular shape.

But it is the concept aircraft's fuel efficiency that is really making aircraft manufacturers take note. The researchers claim that it would use 25% less fuel than current aircraft do. Airliners that are cheaper to run and contribute less to climate change may be more attractive than silent ones. That is why a slightly noisier alternative design by the same researchers that is even more fuel-efficient shows most promise.

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Psychology

Swarming the shelves

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How shops can exploit people's herd mentality to increase sales

A TRIP to the supermarket may not seem like an exercise in psychological warfare—but it is. Shopkeepers know that filling a store with the aroma of freshly baked bread makes people feel hungry and persuades them to buy more food than they had intended. Stocking the most expensive products at eye level makes them sell faster than cheaper but less visible competitors. Now researchers are investigating how “swarm intelligence” (that is, how ants, bees or any social animal, including humans, behave in a crowd) can be used to influence what people buy.

At a recent conference on the simulation of adaptive behaviour in Rome, Zeeshan-ul-hassan Usmani, a computer scientist from Princeton University, described a new way to increase impulse buying using this phenomenon. Supermarkets already encourage shoppers to buy things they did not realise they wanted: for instance, by placing everyday items such as milk and eggs at the back of the store, forcing shoppers to walk past other tempting goods to reach them. Dr Usmani and Ronaldo Menezes of the Florida Institute of Technology set out to enhance this tendency to buy more by playing on the herd instinct. The idea is that, if a certain product is seen to be popular, shoppers are likely to choose it too. The challenge is to keep customers informed about what others are buying.

Enter smart-cart technology. In Dr Usmani's supermarket every product has a radio frequency identification tag, a sort of barcode that uses radio waves to transmit information, and every trolley has a scanner that reads this information and relays it to a central computer. As a customer walks past a shelf of goods, a screen on the shelf tells him how many people currently in the shop have chosen that particular product. If the number is high, he is more likely to select it too.

Dr Usmani's “swarm-moves” model appeals to supermarkets because it increases sales without the need to give people discounts. And it gives shoppers the satisfaction of knowing that they bought the “right” product—that is, the one everyone else bought. The model has not yet been tested widely in the real world, mainly because radio frequency identification technology is new and has only been installed experimentally in some supermarkets. But Dr Usmani says that both Wal-Mart in America and Tesco in Britain are interested in his work, and testing will get under way in the spring.

Another recent study on the power of social influence indicates that sales could, indeed, be boosted in this way. Matthew Salganik of Columbia University in New York and his colleagues have described creating an artificial music market in which some 14,000 people downloaded previously unknown songs. The researchers found that when people could see the songs ranked by how many times they had been downloaded, they followed the crowd. When the songs were not ordered by rank, but the number of times they had been downloaded was displayed, the effect of social influence was still there but was less pronounced. People thus follow the herd when it is easy for them to do so.

In Japan a chain of convenience shops called RanKing RanQueen has been ordering its products according to sales data from department stores and research companies. The shops sell only the most popular items in each product category, and the rankings are updated weekly. Icosystem, a company in Cambridge, Massachusetts, also aims to exploit knowledge of social networking to improve sales.

And the psychology that works in physical stores is just as potent on the internet. Online retailers such as Amazon are adept at telling shoppers which products are popular with like-minded consumers. Even in the privacy of your home, you can still be part of the swarm.

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AIDS

The fighter within

Nov 9th 2006 | NEW YORK
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Gene therapy shows some early promise

ONE of the most fashionable treatments for disease, gene therapy, has so far made little headway in tackling one of the most modish of illnesses, AIDS and the human immunodeficiency virus (HIV) that causes it. The idea of gene-therapy treatment for HIV/AIDS would be to create a gene that, when placed in an infected person, would make all of the offspring of the cell into which it was inserted resistant to the virus. Even if the virus continued to destroy the patient's immune cells, new ones that could not be infected would replace them. Eventually, the disease would no longer threaten the health of the patient.

A first step towards this has been achieved by researchers at the University of Pennsylvania and VIRxSYS, a biotechnology firm based near Baltimore. Rather than inserting a gene directly, they removed the immune cells from people and replaced them with versions that had been modified to resist the virus. The results were published in this week's issue of the *Proceedings of the National Academy of Sciences*.

The team treated five infected patients who had not responded to at least two different programmes of treatment using conventional anti-retroviral drugs. They removed from each patient's blood the cells called “helper T-cells” that would normally mobilise the immune response to the virus. These were purified and stuffed with a form of HIV that had been altered to carry a mirror image or “antisense” version of a molecule that enables it to multiply. This genetic fiddling disrupted the reproduction of the virus inside infected cells.

Such a small experiment was designed merely to establish whether the approach was safe. But the researchers were pleasantly surprised to find that the number of viruses in each patient dropped. This suggests that the treatment was tackling the disease effectively in difficult patients for whom conventional drugs had failed. According to Carl June of the University of Pennsylvania, their immune systems responded “as if they were on a vaccine” and it appeared as though their bodies were “vaccinating themselves” against HIV.

The researchers are now moving to the next phase of study, which will involve more patients, including those whose disease is in its early stages. If later trials confirm the early positive results, this approach could prove a useful complement to existing drugs or a future vaccine—and may even replace them.

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Psychometrics

Without prejudice

Nov 9th 2006 | BERLIN
From The Economist print edition

A new way of making personality tests useful

AROUND half of the companies that recruit graduates use some form of testing to identify the ones they wish to employ. A small industry has sprung up to advise job-hunters on how to complete these assessments, which include psychological tests. But the days of trying to guess the employer's desired answers could soon be over. Psychologists have developed a system that translates a person's gut instincts into a rich picture of personality. Crucially, they can now process this information in a meaningful way.

Modern personality tests date from 1950s America, when George Kelly invented his “personal construct” theory. His work was designed to elicit personal information by asking people open questions about themselves that could not be interpreted as having right or wrong answers. For example, asking a person whether he considers himself to have leadership skills will generally produce the response that he possesses them in abundance. But asking him how he considers himself to be different from his boss might garner more information: he is innovative, say, whereas his boss is traditional. As none of the questions are prejudicial, the temptation to provide anything other than honest answers is removed. And the descriptive terms are introduced by the person being tested rather than the questioner, allowing new and more personal information to be introduced.

Researchers can use this information to create complex grids and webs that map an individual's personality and that can be used to compare it with others'. By asking a person's opinion of colleagues, the company he works for and where he sees himself in five years' time, a rich image of the person can be created. But the picture grows rapidly more complicated as more questions are asked, making detailed assessment and comparison difficult.

A team at the Chemnitz University of Technology in Germany, led by Matthias Rosenberger, has transformed the usefulness of the test by feeding its results into high-capacity computers. When many so-called “personal cognitive dimensions” are entered, computer software generates three-dimensional grids that represent the answers. These can be manipulated and explored. The software allows researchers to compare grids from different people to see who has relatively similar personalities and may get on well and who may be quite different and experience constructive friction with one another. The results will be presented to a conference at the end of November.

Two German companies are already using the system. One, a tools company, is employing it to select members of its own staff and some from another company to take part in a joint project. A second firm is profiling its entire staff before restructuring, to find out who will best fit where. People in human-resources departments around the world will be curious to see how well the system works in practice.

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Biology

Go west, old man

Nov 9th 2006
From The Economist print edition

Jetlag can be fatal if you are flying east—and you are an elderly mouse

TINKERING with the circadian clock, the day-and-night cycle in the physiological processes of all living beings, is rarely a good idea. Poor health and accidents are more common in those who fly frequently or do shift work. Now a new study shows that the direction in which the clock is changed affects the well-being of an individual—at least when the individual is an old mouse.

Researchers led by Gene Block and Alec Davidson of the University of Virginia noticed that, in an earlier experiment, a surprising number of elderly rats died when the daily cycle of light followed by darkness was altered so that the light came six hours earlier. To examine whether there really was a link they conducted a separate experiment using three groups of mice.

Each group contained nine young male mice and about 30 old male mice. The first group was placed on a normal daily cycle of 12 hours of light followed by 12 hours of darkness. The second had its 12 hours of light delayed by six hours once a week, replicating the jetlag experienced after travelling west. The third group had its 12 hours of light advanced by six hours once a week, mimicking eastbound travel. The experiment lasted for eight weeks.

As might be expected, the young mice in each of the three groups fared relatively well; just one died. Of the elderly rodents whose days and nights were unchanged, 17% died. But the number of deaths in the two groups whose day-and-night cycles had been tampered with was far higher. Among the “westbound” group—those whose light cycle was repeatedly delayed—32% died. The death rate in the “eastbound” group, whose light cycle was brought forward, was 53%. The results are published in this week's issue of *Current Biology*.

To see whether it was the rapidity with which the changes were made that hastened the demise of the old mice, the researchers repeated the experiment but either delayed or advanced the light part of the cycle every four days. Sure enough, in both groups, the mice perished more rapidly. This was particularly the case in the “eastbound” mice, the group whose light cycle had been brought forward.

Exactly why this happened is not yet clear. The researchers investigated the anxiety levels of the mice by measuring a stress hormone called corticosterone in their faeces. The levels remained the same among the elderly mice in all three groups. Therefore the mice did not die because they became stressed by the repeated changes to their body clocks.

Past research has indicated that circadian clocks govern physiological rhythms in many parts of the body and that the different parts can adjust to schedule changes at different rates. Although the experiment did not test the idea (or, for that matter, the effects of an upgrade to the rodent equivalent of business class), the researchers speculate that it may be this lack of synchrony that caused the deaths of the older animals. Whatever the cause, the message for exhausted elderly travellers would appear to be: if you must fly, head west.

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About sponsorship

Sacred icons

All heaven before mine eyes

Nov 9th 2006 | MOUNT SINAI, EGYPT
From The Economist print edition

The Getty Museum is creating an atmosphere of religious worship in its new show, prompting debate about how closely Mammon can imitate the monastic

FOR the Orthodox monks of the Holy Monastery of St Catherine in the Sinai desert, the morning of November 14th will not seem very different from any other they can remember—and in essential ways its proceedings will resemble almost every start to the day at the monastery for the past 1,400 years. At around 4 o'clock in the morning a handful of black-clad figures will emerge from their spartan cells into the starry, icy night and make their way across the courtyard into an ancient basilica where a forest of hanging lamps is waiting to be lit.

With practised concentration they will take their places below the giant icons and begin intoning prayers in low, urgent Byzantine Greek: a densely-woven tapestry of psalms, litanies and special invocations prescribed for the date or the season. After about two hours the tempo will become more solemn and dramatic as the rapid recitations of the morning service give way to the more careful choreography of a liturgy, or what Western Christians would call a mass or communion service. Finally, as dawn breaks, a priest will emerge from behind the altar, chalice in hand, his vestments glinting in the sun's early rays. Straight above him, as he calls on the Holy Spirit to consecrate the bread and wine, is one of the most striking pieces of religious art ever produced: a sixth-century mosaic of Jesus Christ, transfigured by white light and flanked by Moses the law-giver and Elijah the prophet. Just as the daily monastic rites set out to relive the death and resurrection of the Messiah, nature's cycle of night and day—more vividly experienced amid Sinai's red cliffs than in most other places on earth—conveys a similar message of near-annihilation followed by miraculous rebirth.

But in one respect that mid-November Tuesday will be very unusual in the annals of St Catherine's. That is because nearly 8,000 miles (12,900km) away, the history buffs and art-lovers of southern California will be offered a carefully organised opportunity to share at least part of the ancient community's aesthetic and spiritual life. An exhibition at the Getty Museum in Los Angeles—a place more readily associated with Mammon than with the divine—seems unprecedented in several ways. The most obvious is in the size of the exhibition; 53 icons and sacred objects from St Catherine's will be on show. There are very few other institutions in the world with the deep pockets and conservation skills needed to insure and transport so many objects and then keep them for five months at the required temperature and air quality.

Even more striking is the curators' determination to convey the atmosphere of worship so that

manuscripts, vestments and religious paintings can be appreciated in something like the original context. Visitors will, in effect, be invited to do something that few pilgrims to St Catherine's ever do: enter the holy space around the altar where the priest's most solemn duties, above all the consecration of bread and wine, are performed. There will be a “holy table” with a cross, chalice and paten (all dating from the sixth century) and a “templon” or wall of icons of the kind used to separate lay worshippers from the church's most sacred part.

Other exhibits have been chosen for their relevance to prayer: for example, a priest's stole, gorgeously embroidered with scenes from church feasts, and a ninth-century Arabic manuscript showing one of the monastery's founders surrounded by church lamps. Visitors will see a film of worship at St Catherine's during the week leading up to Easter, a time of long, spectacular services.

The exhibition's greatest prize is a sixth-century portrait of the apostle Peter holding the keys of the kingdom of heaven: this, and two other icons of the same period and style (taken from St Catherine's to Ukraine in the 19th century) will illustrate the striking realism that was achieved by the encaustic technique, in which a brush was deftly applied to melting wax. But in its presentation of three of the five oldest icons in the world, the exhibit will not simply invite people to admire their beauty and antiquity: it also invites questions about the role of such icons in prayer and devotion.

All this prompts debate about the relationship between faith, art and reality. Icons and other religious objects like manuscripts were obviously made for the purpose of representation—as signposts pointing the way to a sublime reality. But in the Eastern Christian tradition icons are also holy in themselves; they participate in holiness as well as pointing to it. Certain icons are deemed to be especially holy, generating miracles even among those who have not fully grasped their significance. At the same time that sort of sanctity is not fully affirmed—so the tradition teaches—unless people use icons as they were intended, as “windows onto heaven” through which prayers are directed.

In the end there must surely be some things about religious artefacts that can be understood only through subjective religious experience. The exhibition will doubtless go a long way towards offering such an understanding; but given that its organiser is a museum and not a church, it cannot go all the way—and nor indeed should it try. To put it another way, there will always be a difference between prayerfully venerating an icon and admiring its technical brilliance, just as there is a difference between biology lessons and erotic love.

“Holy Image, Hallowed Ground: Icons from Sinai” is at the J. Paul Getty Museum, Los Angeles, from November 14th 2006–March 4th 2007

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Disseminating holiness

Plying places

Nov 9th 2006
From The Economist print edition

FOR the past 3,000 years or so, the holy city of Jerusalem has acted rather like a giant sponge. It has drawn in people who are attracted by its sanctity, whether out of genuine, humble piety or a desire to gain some advantage—often political or economic—by controlling or possessing at least some small part of the sacred action.

At the same time the holiness of Jerusalem has been disseminated across the world: sometimes by pilgrims, returning with their relics or souvenirs, or through its use as a model for church-builders, hymn-writers and film-directors who have never been there.

In a short, sophisticated and highly readable book, Annabel Jane Wharton attempts a sort of taxonomy of the different ways in which Jerusalem's holiness has been exported. Drawing on literary and aesthetic theory, and (in the loosest sense at least) on Marxist approaches to the relationship between the material and spiritual, she links each phase in Christian Jerusalem's history to broader developments in the social and economic history of the wider world. She focuses on Christianity rather than the other monotheisms that consider Jerusalem to be holy—but acknowledges that the Christian and Muslim presentations of the city's sanctity are deeply indebted to the older tradition of the Jewish Temple.

Selling Jerusalem: Relics, Replicas, Theme Parks
By Annabel Jane Wharton

University of Chicago Press; 296 pages; $32.50 and £20.50

Buy it at
Amazon.com
Amazon.co.uk

Among the “phases” she considers are the export of relics of the True Cross; the power of the Knights Templar and the Franciscans that was built in part on the privileged access they enjoyed to Jerusalem; and the 19th-century fashion for magnificent paintings of the Holy Land by artists such as David Roberts.

Ms Wharton, a professor of art history at Duke University, who in 2001 published an interesting study of the semiotics of Conrad Hilton's hotels, describes the modern era as an age of visual “illusionism”—in which films like Mel Gibson's “The Passion of the Christ” and highly realistic re-creations of the Holy Land (in Florida, for example) have replaced the tactile experience of venerating holy objects by kissing them or simply savouring the sweet perfume which they are believed to exude.

The book would be better still if it had found a place for the Russian approach to the Holy Land. Ms Wharton might have mentioned the passable imitation of Jerusalem's Old City, complete with its ancient gates, that was built outside Moscow in the 17th century; and also the enormous movement of simple Slavic pilgrims—many of whom died on the journey, and considered it a blessing to do so—to the Holy Land in the twilight of the Tsarist era.

Early in the 21st century Russians once again form the biggest single contingent of pilgrims to the Holy Sepulchre and to Mount Sinai. Like their forebears, they want to touch, taste and smell the land where God once appeared. The impulse behind this latest wave of pious travel to the Holy Land is broadly similar to that of the early Christians who began coming to Jerusalem as soon as the site of Jesus Christ's birth, death and resurrection had been identified and celebrated. Jerusalem's pull is as inexorable as ever, and that is as true for Muslims and Jews as it is for Christians.

Selling Jerusalem: Relics, Replicas, Theme Parks.
By Annabel Jane Wharton.
University of Chicago Press; 296 pages; $32.50 and £20.50

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About sponsorship

Rewriting history

The madness of myths

Nov 9th 2006
From The Economist print edition

WHATEVER you think about the second world war is wrong, and this book will prove it. That, at least, is the contention of Norman Davies, a trenchant British-born historian whose scope, ambition and knowledge about Europe are unmatched. His aim in this new history of the war is to puncture the comfortable myths created by the combination of popular culture (especially in films) plus the self-centred history taught in schools.

Europe at War 1939-1945: No Simple Victory
By Norman Davies

Macmillan; 544 pages; £25

Buy it at Amazon.co.uk

Decades of junk history have given most if not all citizens of the countries that participated in it a picture of the war that is distorted, incomplete, or sometimes downright wrong. Britain's much-praised Dunkirk spirit and suffering during the Blitz is a sideshow compared with the gore and grit of occupied Poland. Most countries define second world war “war crimes” as something committed only by Germany and her allies; difficult subjects, such as Allied atrocities or Jewish collaboration with the Nazis, get short shrift.

Mr Davies's biggest demolition job is of the factual errors and ignorance that support the complacent national versions of wartime history. One notable example is the British myth that says that the island fortress stood “alone” against Hitler in 1940, which rudely neglects the efforts made by the Poles, Greeks and others.

But these pale beside the monstrous failure of the Western powers to appreciate, then or later, the nature of their Soviet ally. The biggest and bloodiest struggle by far of the European war was between two gangster regimes whose awful treatment of their own people and neighbours is unmatched before or since. That, argues Mr Davies, makes it hard if not impossible to say that the war was any kind of struggle between a good and evil side.

The Western alliance with Stalin and its consequences is the central theme of this book. But along the way the author pokes mercilessly at misapprehensions large and small. The war was not fought to stop the Holocaust. British and American readers may be surprised to learn (though they shouldn't be) that their countries' role in land warfare was so feeble. El Alamein, the much-praised British victory in north Africa, was a mere pub brawl compared with the battles of Midway and Stalingrad.

Mr Davies's two main weapons are the devastating statistic and the unexpected comparison. Stalin's death camps killed more people than Hitler's. America's army in 1939 was smaller than Poland's. The casualties of the 1944 Warsaw uprising were the equivalent of the September 11th, 2001 attack on the World Trade Centre, every day for two months.

The effect is powerful and, for the most part, convincing. The war was an appalling and complicated mess, in which heroism, individual and collective, was balanced and often outweighed by cowardice, cruelty and incompetence, and—worse—dreadful compromises and surrenders dictated by realpolitik and dressed up in the language of patriotism and morality. After reading this book, not every reader will rethink his or her view of the war altogether, but most will find their thinking enriched and stimulated by new facts and viewpoints. The muscular prose and spiky jokes are treats too.

What is sometimes missing—oddly, in a book that aims chiefly to supply the missing context—is a sense of fairness and proportion. Mr Davies is sometimes so keen to puncture myths that he sounds almost vindictive. It is true that the British population suffered very little compared with the Poles. But that does not make what he calls Churchill's “gamble” to fight on in 1940 any less splendid. The sardonic iconoclastic tone that distinguishes the rest of the book seems to disappear when his beloved Poland is

concerned. Most importantly of all: what was the West supposed to do when Hitler attacked the Soviet Union? Cheer him on? Stand back? Or reluctantly assume that one's biggest enemy's biggest enemy is to some extent one's friend.

Mr Davies's book also contains a number of irritating, trivial errors. *U nas mnogo*, a Russian phrase, for example, does not mean “we are many” but “we've got lots”. Readers' confidence in Mr Davies's judgment might be even greater if he got the small things right too.

Europe at War 1939-1945: No Simple Victory.
By Norman Davies.
Macmillan; 544 pages; £25

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About sponsorship

William Styron

As a writer, wilful and unrepentant

Nov 9th 2006
From The Economist print edition

Like many of his literary heroes, William Styron wrote to make sense of the world

ON the door to William Styron's studio was a quotation from Gustave Flaubert: “Be regular and orderly in your life so that you may be violent and original in your work.” Styron, who died on November 1st, certainly tried to live by those words. Early fame ensured his financial comfort; a good marriage preserved him; and the company of friends—James Baldwin, Romaine Gary and George Plimpton among others—inspired him.

The American writer liked difficult subjects and controversy often followed his work. “The Confessions of Nat Turner” (1967) was told from the point of view of the slave who led the 1831 Virginia slave revolt. At the height of the civil-rights movement, many readers were furious at the idea of a white Southerner writing as a black slave rebel. Black activists argued that Styron had no place appropriating black history. Yet “Nat Turner” was a runaway bestseller and won the Pulitzer prize for fiction. “Sophie's Choice” (1979), about an Auschwitz survivor, was also a critical and commercial success. Many argued that the horror of the Nazi death camps could not be written. But for Styron the Holocaust was an act of man, however terrible, and writing was a means to control and mediate the nature of the world.

At 60, when he gave up alcohol (“an invaluable senior partner to my intellect”), Styron fell victim to depression. Visiting Paris to receive an award for “Sophie's Choice”, he was overcome by a pain of “ferocious inwardness”. “Darkness Visible” (1990), his last work, was an unflinching study of this “despair beyond despair”. Depression, Styron argued, was not a matter of frailty or weakness but of unendurable pain; a death sentence. The darkness, it seemed, had always been there, giving his work its authenticity and its voice. “The good writing of any age,” Styron attested, “has always been the product of someone's neurosis.”

He was mindful, however, to keep this darkness tempered with a dry and visceral wit. In “Sophie's Choice”, for example, he juxtaposed the tragedy of the Holocaust with the adolescent narrator's desperate quest for sex:

> She said nothing for a while, merely lay there with her face buried in her hands. I sat on the edge of the bed...[f]rom that angle I could plainly see the grim blue-black tattoo, the row of numbers remarkably neat, a little barbwire fence of orderly ciphers in which one ‘seven’ was bisected with the meticulous European slash. I smelled the herbal perfume she so often wore...[and] suddenly wondered if I dared now make a pass at her.

Styron found the process of writing agonising. “The main problem,” he complained, “narrows down to just one word—life.” Work was slow: on an inspired day he might produce two or three sides of longhand, on other days nothing at all. But his writer's block did provide some fortunate failures. In 1985 Styron decided to take his own life. To his immense annoyance, he found that eloquent parting words failed him. Unable to compose a suicide note, he abandoned the idea. The written word was in the very fabric of his being; it qualified his living and his dying. A letter in the inaugural issue of the *Paris Review* (a literary journal that he helped establish) in the spring of 1953 shows this Styron at his proudest and finest:

> The times get precisely the literature that they deserve... The writer will be dead before anyone can judge him—but he *must* go on writing, reflecting disorder, defeat, despair, should that be all he sees at the moment, but ever searching for the elusive love, joy, and hope—qualities which, as in the act of life itself, are best when they have to be struggled for.

He was, to the end, unrepentant, and had an existential compulsion to write.

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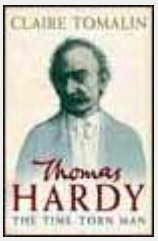
Literary biography

Out of the obscure

Nov 9th 2006
From The Economist print edition

CLAIRE TOMALIN'S life of Thomas Hardy does not begin, as one would expect, with its subject's birth and antecedents, but with the death of his first wife Emma in 1912. This play with the narrative conventions of biography turns out to be a masterstroke, drawing the reader into Hardy's emotional universe, and giving human shape to the literary critical argument that it is as a poet, rather than a novelist, that the author of “Tess of the D'Urbervilles” achieved his finest work.

Thomas Hardy: The Time-Torn Man
By Claire Tomalin



Penguin/Viking; 486 pages; £25. To be published in America by Penguin Press in January

Buy it at
Amazon.com
Amazon.co.uk

Emma's death released the poet in Hardy, who was by that time one of the most successful novelists of his generation, but a man whose private life was shadowed by a problematic childless marriage. The couple—who had married for love in 1874 despite differences in class and parental opposition—had become so alienated that she had taken to spending her time apart in an attic room. He barely noticed the severity of her last illness until it was too late. “Em, don't you know me?” were his revealing last words to her unconscious body, when he was finally summoned to her side (his first response, before mounting the stairs, was to tell the maid to straighten her collar).

If this Hardy seems cold, the great wave of love poetry to Emma that burst from him after her death was anything but. Delving into the nuanced complexities of attachment and alienation, guilt and loss, with a strange idiosyncratic spareness of style that seemed both modernist and unique to contemporaries, he revisited the subject obsessively. This aroused the jealousy of his much younger second wife, Florence, an acolyte who, unlike Emma, fell in love with a rich and famous grand old man of letters, rather than an ardently striving newcomer.

The son of working-class parents, Hardy grew up in the Dorset countryside, which he later recreated as the landscape of his novels. His father was a builder, his mother a former servant with unusual literary tastes and formidable educational aspirations for her physically unprepossessing son. Forced by an unplanned pregnancy into marriage, she felt a lifelong ambivalence towards the institution, which her children inherited: three of them remained single while Thomas's novels often focused on marriage's tragic side. He became a writer after an unfulfilling apprenticeship as an architect. His earliest novel, “The Poor Man and the Lady”, unpublished and now lost, explored many of the class issues which would resurface in “Tess” and “Jude the Obscure”.

“Jude” included probably the most painful scene in literature—in which a small child hangs his siblings and himself—and though Ms Tomalin shows some exasperation with her subject over this maudlin melodrama, his reasons for being drawn to such frankly sadistic imaginings remain mysterious. Nevertheless, this biography, from one of the most accomplished practitioners of the art, is a work of supreme sensitivity and control. Managing her materials with deceptive ease and fluency, Ms Tomalin provides an object lesson in how to write a life.

Thomas Hardy: The Time-Torn Man.
By Claire Tomalin.
Penguin/Viking; 486 pages; £25. To be published in America by Penguin Press in January

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The Mughal empire

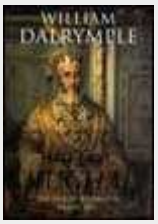
Last of the line

Nov 9th 2006
From The Economist print edition

ON November 7th 1862 the body of the exiled Bahadur Shah Zafar II was lowered into an unmarked grave in Myanmar, in the city then known as Rangoon. Zafar had been the last Mughal emperor, his death the final act of a dynasty that had reigned for 350 years. At its height, under the Emperor Aurangzeb in the early 18th century, it ruled over all of the Indian subcontinent bar its southernmost tip. By the time Zafar came into his inheritance in 1837, the Mughal emperor was a pensioner of the British, whose writ scarcely ran beyond the walls of Delhi. William Dalrymple's new book is a riveting account of the dynasty's final months.

Zafar was on the throne in the summer of 1857 when a series of clashes began in northern India that have variously become known as the “sepoy mutiny”, the “first war of independence” or the “national uprising”, each label reflecting the user's prejudice. For Mr Dalrymple it is simply the “uprising”. British histories of the Indian mutiny trace events as they unfolded across the plains, from Meerut to Delhi, to Kanpur and Lucknow. They tend to concentrate on the British side of the story, how an insurrection in their Bengal army—of which all but 7,796 of 139,000 men turned against their masters—was defeated by vastly inferior numbers.

The Last Mughal: The Fall of a Dynasty, Delhi, 1857
By William Dalrymple



To be published in America by Knopf in March
Bloomsbury; 608 pages; £25.

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“The Last Mughal” concentrates exclusively on events in Delhi, from the first arrival of mutinous sepoys in May 1857 to the fall of the city in September. It is neither wholly a biography of Zafar, nor solely the story of the siege and capture of Delhi. Instead Mr Dalrymple charts the course of the uprising and the siege, weaving into his story the unfolding tragedy of Zafar's last months.

The animating spirit of the book is not the last Mughal, but Delhi itself, a city that Mr Dalrymple knows intimately, having spent much of the last 20 years there. His 1993 book, “City of Djinns”, remains one of the best on Delhi. It is here that the originality of his new book lies. By delving into previously untapped Urdu sources, Mr Dalrymple brings to life the chaotic lawlessness in Delhi during the uprising. With the influx of troops, order collapsed; looting and random violence became commonplace, but worse was to come. When the British captured Delhi, they avenged themselves upon the city and its inhabitants with wholesale slaughter and destruction. Delhi was reduced to “a desolate city of the dead”. Symbolic of this was the vandalism of the Red Fort, the principal glory of Mughal Delhi, leaving it with scars that it bears to this day.

British historians of the Raj have commonly regarded Zafar as a nonentity who was, one wrote, “somewhat gaga and addicted to opium”. Mr Dalrymple has a more favourable view. Zafar, he shows, presided over a cultural flowering of great sophistication in Delhi. His tragedy was his inability to control events. An old man swept along by the mutinous sepoys, he reluctantly gave his blessing to the uprising, but quickly became disenchanted with its violence and philistinism. His loyalty was to his dynasty and his city but, in the end, he condemned both to destruction at the hands of the British.

The Last Mughal: The Fall of a Dynasty, Delhi, 1857.
By William Dalrymple.
Bloomsbury; 608 pages; £25.
To be published in America by Knopf in March

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Bulent Ecevit

Nov 9th 2006
From The Economist print edition

Bulent Ecevit, a Turkish prime minister and poet, died on November 5th, aged 81

Reuters

WHEN Bulent Ecevit decided, on July 20th 1974, to send an invasion force to Cyprus, he could find many reasons for it. Greeks and Turks on the island had been killing each other for years. Turkish-Cypriots, the minority, needed protection against “genocide”. A coup had been staged by a Greek guerrilla leader in the name of union with Greece; and if it succeeded, Turkey's southern coast would be “almost imprisoned”, as Mr Ecevit put it later, among the Greek Aegean islands.

But these considerations, weighty as they were, were not what fortified him as he was briefed that day, in an underground bunker, by a group of sweating generals. He was thinking of the “Bhagavad Gita”, which he knew in the original Sanskrit; and the “Gita” taught that if a man was sure he was morally right, he should not hesitate to take action.

Judging Mr Ecevit by his day-job—four times prime minister of Turkey between 1973 and 2002, sidelined after eight months by the Cyprus adventure, chucked out by a coup in 1980, almost derailed by a financial crash in 2001—his fondness for Hindu mysticism might seem strange. Looking at him, it made more sense. His face, narrow and hawkish, with thick glasses and a drooping black moustache, seemed made for peering into books.

His happiest times had been spent doing so. At his high school, Robert College in Istanbul, he put Rabindranath Tagore into Turkish at 14; some years later, as a press attaché in London, he studied Bengali to read Tagore in the original. He translated T.S. Eliot and Ezra Pound, besides writing Sufism-flavoured verses of his own. “A cup of tea, a piece of paper, a pencil and a poetry book are the most faithful friends of Bulent,” read his entry in the high-school year-book. In old age he would still hold court over poetry and tea on a blue sofa in his flat. Verses and politics went together, he insisted. Ottoman sultans had regularly combined them.

As a politician he was a man of surprises. To begin with, he was honest; in power his lifestyle was as modest and bookish as before. Second, he was at heart a socialist, a rare breed in his country. Having arrived in parliament in 1957 as a member of the Republican People's Party that had been founded by Kemal Ataturk, the maker of modern Turkey, he steadily took the party leftwards towards political reform and land redistribution; and as the country's first left-wing prime minister he might have enacted such policies, if Cyprus had not undone him.

The invasion cost both him and his country dearly. Turkey's reputation abroad took a dive, Mr Ecevit served a mere eight months in power, and the unhappy 1970s ended with a military coup. Mr Ecevit was sent to prison in 1980 and banned from active politics for a decade. He re-emerged with his own new outfit, the Democratic Left Party (DLP), which despite its name edged gradually towards more free-market policies. By 1999, when the DLP won most seats at the election, Turkey could present itself as a plausible candidate for membership of the EU.

Raki by the Aegean

But Cyprus had also showed how crude a nationalist this sophisticated man could be. Mr Ecevit refused to the end to make concessions to the Greeks over the island, on which a backward and impoverished Turkish-Cypriot rump still persisted, unrecognised by any other country but Turkey. To make progress on settling the dispute was essential to Turkey's hopes of joining the European club. But Cyprus, Mr Ecevit thought, was none of the EU's business.

He would not be pushed by America, either. Reluctantly, because he wished to be thought a good member of NATO, he let American planes use Turkish bases to patrol northern Iraq. But he bridled at America's nagging on behalf of Turkey's 15m Kurds, rebuffing all talk of autonomy and stalling on the use of Kurdish in schools. They were simply not a minority, he explained patiently. They were “part of the majority in an unquestionable way”.

About the ever-more-tendentious Islamists he felt similarly. He cared above all about Turkey's cohesion, and saw religious fundamentalism whittling it away. When in 1999 a female member of the Islamist Virtue Party wore a headscarf in Parliament, Mr Ecevit accused her of “challenging the state”. His own life was so secular and western that his wife Rahsan, who ran the DLP with him, was said to have him firmly under her thumb and to nurse his political grudges for him.

He preferred not to hold them. His last spell in government was in coalition with the Nationalist Action Party, old right-wing enemies growing steadily more extreme; but he shook their hands, saying that the era of ideologies was over.

There remained the Greeks and the Cyprus question. Ecevit the politician was unbudging. Ecevit the poet had seen things differently, as poets do.

> The golden age of the Aegean
> Will revive through us
> As with the fire of the future
> The hearth of the past comes alive.

Turk and Greek might sit together, he went on, drinking *raki* and *ouzo* by the “blue magic” of the sea that divided them. But Mr Ecevit wrote that in London, homesick, in 1947.

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Overview

Nov 9th 2006
From The Economist print edition

The **American jobs market** is showing unexpected signs of strength. Businesses (excluding farms) added 92,000 workers to the payrolls in October, after creating 148,000 jobs in September and 230,000 in August, according to revised figures. The unemployment rate reached a five-year low of 4.4% in October from 4.6% the month before.

America's service industries rebounded in October. The Institute for Supply Management's index of non-manufacturing activity climbed to 57.1 from 52.9 in September, after dropping from 57.0 in August.

In the **euro area** producer prices dropped by 0.5% in September, after edging up by 0.1% the month before. Unemployment in the euro area held steady at 7.8% in September following a downward revision of the August figure. Meanwhile, the volume of retail sales declined by 0.6% in September after increasing by 0.5% in August. This left sales 1.4% higher in September compared with the year before.

Germany's trade surplus widened to €15 billion ($19 billion) in September, as exports grew by 6.6%, the fastest increase in more than four years. However, industrial production in Germany declined by 0.3% in September, due to weaker output from manufacturing, construction and energy. Factory orders dropped by 2.5% in September compared with the previous month, the biggest fall in more than a year, thanks to a slackening of foreign demand.

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Economic forecasts

Nov 9th 2006
From The Economist print edition

November averages (previous month's, if changed)

	Real GDP, % change				Consumer prices % increase		Current account % of GDP	
	Low/high range		average					
	2006	2007	2006	2007	2006	2007	2006	2007
Australia	2.5/2.9	2.7/3.7	2.7	3.2	3.4	2.7 (2.8)	-5.6	-5.2 (-5.3)
Austria	2.4/3.0	1.7/2.6	2.8 (2.6)	2.1 (2.0)	1.7 (1.8)	1.7	1.1 (0.8)	1.1 (0.8)
Belgium	2.6/2.9	1.6/2.3	2.7 (2.6)	1.9 (2.0)	2.2 (2.0)	2.0 (1.9)	1.8	1.9 (2.0)
Britain	2.5/2.8	1.8/2.7	2.6	2.4	2.3	2.2	-2.6 (-2.7)	-2.8 (-3.0)
Canada	2.6/3.0	2.0/3.0	2.8 (2.9)	2.5 (2.6)	2.2 (2.4)	2.1 (2.2)	1.4 (1.5)	0.9 (1.0)
Denmark	2.8/3.6	1.9/2.8	3.1 (2.7)	2.3 (2.1)	2.0	2.0	2.0 (1.9)	1.9 (1.8)
France	2.2/2.4	1.6/2.6	2.3	2.0	1.8 (2.0)	1.5 (1.7)	-1.5 (-1.8)	-1.2 (-1.4)
Germany	2.2/3.2	0.6/2.1	2.4 (2.3)	1.4 (1.3)	1.7 (1.8)	2.3	3.6	3.7 (3.6)
Italy	1.5/1.8	0.9/1.8	1.7 (1.6)	1.2	2.2	1.9 (2.0)	-1.8	-1.7
Japan	2.5/2.8	1.4/3.0	2.7 (2.8)	2.1	0.3	0.5	3.6 (3.5)	3.6 (3.5)
Netherlands	2.4/3.1	1.5/2.8	2.7	2.2	1.6	1.7	6.3	5.7 (6.0)
Spain	3.3/3.7	2.5/3.0	3.5	2.8	3.5 (3.8)	2.8 (3.0)	-8.1 (-8.4)	-7.8 (-8.0)
Sweden	3.8/4.7	2.6/3.5	4.4	3.1 (3.0)	1.4	1.8 (1.9)	6.4 (6.5)	5.9 (6.0)
Switzerland	2.7/3.1	1.5/2.4	2.9 (3.0)	2.1 (2.0)	1.2 (1.3)	1.2 (1.3)	13.5 (13.0)	12.9 (12.5)
United States	3.1/3.5	1.6/3.0	3.3 (3.4)	2.3 (2.4)	3.4 (3.5)	2.3 (2.4)	-6.6	-6.5 (-6.6)
Euro area	2.5/2.8	1.5/2.5	2.6 (2.5)	1.9 (1.8)	2.2	2.1	-0.4	-0.1 (-0.2)

Sources: ABN AMRO, Deutsche Bank, Economist Intelligence Unit, Goldman Sachs, HSBC Securities, KBC Bank, JPMorgan Chase, Morgan Stanley, Decision Economics, BNP Paribas, Citigroup, Scotiabank, UBS

Each month *The Economist* surveys a group of forecasters and calculates the average of their predictions for economic growth, inflation and current-account balances in 15 countries and the euro area. The table also shows the highest and lowest projections for growth. The previous month's figures, where they are different, are shown in brackets. The panel now expects America's GDP growth to slow to 2.3% in 2007, compared with October's prediction of 2.4%. The soothsayers think the euro area will grow by 2.6% this year (up from 2.5% in October), then slow to 1.9% next year. Denmark's growth in 2006 has been revised up from 2.7% to 3.1%. But Japan is now tipped to grow by 2.7% in 2006, down from October's prediction of 2.8%. The forecast for Switzerland's current-account surplus has been revised upwards, to 13.5% of GDP for 2006.

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Output, demand and jobs

Nov 9th 2006
From The Economist print edition

% change on year ago

	GDP latest		GDP qtr*	The Economist poll GDP forecasts 2006	2007	Industrial production latest		Retail sales (volume) latest		Unemployment % rate latest		year ago
Australia	+ 1.9	Q2	+ 1.3	+ 2.7	+ 3.2	– 3.0	Q2	+ 3.2	Q3	4.6	Oct	5.2
Austria	+ 3.0	Q2	+ 3.6	+ 2.8	+ 2.1	+ 9.1	Aug	+ 1.8	Aug	4.7	Oct	5.2
Belgium	+ 3.1	Q3	+ 2.4	+ 2.7	+ 1.9	+10.7	Aug	nil	Aug	13.0	Sep†	13.5
Britain	+ 2.8	Q3	+ 2.8	+ 2.6	+ 2.4	+ 0.4	Sep	+ 3.2	Sep	5.5	Aug‡	4.7
Canada	+ 2.9	Q2	+ 2.0	+ 2.8	+ 2.5	– 0.4	Aug	+ 3.7	Jul	6.2	Oct	6.6
Denmark	+ 2.8	Q2	+ 6.5	+ 3.1	+ 2.3	– 0.7	Sep	+ 3.3	Sep	4.2	Sep	5.5
France	+ 2.6	Q2	+ 4.9	+ 2.3	+ 2.0	+ 1.0	Aug	+ 3.6	Aug	8.8	Sep	9.8
Germany	+ 2.4	Q2	+ 3.6	+ 2.4	+ 1.4	+ 6.3	Sep	– 1.2	Sep	10.4	Oct§	11.6
Italy	+ 1.5	Q2	+ 2.2	+ 1.7	+ 1.2	+ 3.5	Aug	– 0.7	Jul	7.0	Q2	7.8
Japan	+ 2.5	Q2	+ 1.0	+ 2.7	+ 2.1	+ 5.1	Sep	+ 0.3	Aug	4.2	Sep	4.3
Netherlands	+ 2.8	Q2	+ 4.8	+ 2.7	+ 2.2	+ 1.2	Sep	+ 3.5	Jul	5.6	Sep††	6.6
Spain	+ 3.7	Q2	+ 3.8	+ 3.5	+ 2.8	+ 0.9	Sep	+ 4.1	Aug	7.8	Sep	8.6
Sweden	+ 5.1	Q2	+ 5.4	+ 4.4	+ 3.1	+ 7.0	Aug	+ 8.7	Sep	4.9	Sep†	5.4
Switzerland	+ 3.2	Q2	+ 3.0	+ 2.9	+ 2.1	+ 4.3	Q2	+ 4.5	Aug	3.1	Oct†	3.7
United States	+ 2.9	Q3	+ 1.6	+ 3.3	+ 2.3	+ 5.6	Sep	+ 4.8	Aug	4.4	Oct	4.9
Euro area	+ 2.7	Q2	+ 3.8	+ 2.6	+ 1.9	+ 5.4	Aug	+ 1.4	Sep	7.8	Sep	8.5
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Finland	+ 6.6	Q2	+ 7.6	na	na	+ 6.8	Sep	+ 5.5	Aug	7.9	Sep	8.3
Greece	+ 4.1	Q2	na	na	na	+ 2.3	Aug	+10.1	Aug	8.8	Q2	9.6
Iceland	+ 2.8	Q2	na	na	na	na		na		1.2	Aug†	1.8
Ireland	+ 5.0	Q2	+ 3.6	na	na	+ 5.5	Aug	+ 5.5	Aug	4.4	Oct	4.4
Luxembourg	+ 5.4	Q2	na	na	na	– 1.4	Jul	+ 1.7	Sep	4.4	Sep	4.3
New Zealand	+ 1.6	Q2	+ 1.7	na	na	+ 0.5	Q2	+ 0.9	Q2	3.8	Q3	3.7
Norway	– 0.5	Q2	+ 1.9	na	na	– 4.7	Sep	+ 8.1	Sep	3.3	Sep**	4.8
Portugal	+ 0.9	Q2	+ 3.8	na	na	+ 1.6	Sep	+ 2.1	Sep	7.3	Q2†	7.2

*% change on previous quarter at an annual rate. †Not seasonally adjusted. ‡Jun-Aug; claimant count rate 3.0% in Sep. §EU harmonised rate 8.5% in Aug. ††Jul-Sep.

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Prices and wages

Nov 9th 2006
From The Economist print edition

% change on year ago

	Consumer prices			The Economist poll consumer prices forecast		Producer prices			Wages/earnings		
	latest		year ago	2006	2007	latest		year ago	latest		year ago
Australia	+ 3.9	Q3	+ 3.0	+ 3.4	+ 2.7	+ 7.9	Q3	+ 6.2	+ 4.7	Q2	+ 5.8
Austria	+ 1.4	Sep	+ 2.4	+ 1.7	+ 1.7	+ 2.4	Oct	+ 1.3	+ 2.7	Sep	+ 2.3
Belgium	+ 1.2	Oct	+ 2.5	+ 2.2	+ 2.0	+ 6.1	Sep	+ 1.4	+ 2.1	Jul	+ 2.5
Britain	+ 2.4	Sep*	+ 2.5	+ 2.3	+ 2.2	+ 1.8	Sep	+ 3.3	+ 4.2	Aug†	+ 4.1
Canada	+ 0.7	Sep	+ 3.4	+ 2.2	+ 2.1	+ 1.3	Sep	+ 0.9	+ 1.4	Jul	+ 0.4
Denmark	+ 1.5	Sep	+ 2.4	+ 2.0	+ 2.0	+ 2.6	Sep	+ 5.3	+ 3.2	Q2	+ 2.9
France	+ 1.2	Sep	+ 2.2	+ 1.8	+ 1.5	+ 2.7	Sep	+ 3.3	+ 3.1	Q2	+ 3.0
Germany	+ 1.2	Oct	+ 2.3	+ 1.7	+ 2.3	+ 3.0	Sep	+ 3.6	+ 0.8	Aug	+ 0.9
Italy	+ 1.8	Oct	+ 2.2	+ 2.2	+ 1.9	+ 5.4	Sep	+ 3.8	+ 3.0	Sep	+ 3.1
Japan	+ 0.6	Sep	– 0.3	+ 0.3	+ 0.5	+ 3.6	Sep	+ 1.8	+ 1.0	Sep	– 0.1
Netherlands	+ 0.9	Oct	+ 1.6	+ 1.6	+ 1.7	+ 2.8	Sep	+ 5.3	+ 2.0	Sep	+ 0.8
Spain	+ 2.9	Sep	+ 3.7	+ 3.5	+ 2.8	+ 4.2	Sep	+ 5.4	+ 3.1	Q2	+ 3.4
Sweden	+ 1.3	Oct	+ 0.5	+ 1.4	+ 1.8	+ 3.6	Sep	+ 4.2	+ 3.1	Aug	+ 3.3
Switzerland	+ 0.3	Oct	+ 1.3	+ 1.2	+ 1.2	+ 2.5	Sep	+ 1.5	+ 1.0	2005	+ 0.9
United States	+ 2.1	Sep	+ 4.7	+ 3.4	+ 2.3	+ 0.9	Sep	+ 6.9	+ 3.9	Oct	+ 3.1
Euro area	+ 1.6	Oct	+ 2.5	+ 2.2	+ 2.1	+ 4.6	Sep	+ 4.4	+ 2.4	Q2	+ 2.5
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*										
Finland	+ 1.5	Sep	+ 1.2	na	na	+ 5.9	Sep	+ 3.8	+ 2.9	Q2	+ 3.7
Greece	+ 2.9	Sep	+ 3.9	na	na	+ 3.6	Sep	+ 6.7	na		na
Iceland	+ 7.2	Oct	+ 4.6	na	na	+11.9	Oct	+ 4.2	+10.8	Sep	+ 6.9
Ireland	+ 4.0	Sep	+ 3.0	na	na	+ 0.1	Sep	– 0.2	+ 4.1	Q2	+ 3.5
Luxembourg	+ 2.4	Sep	+ 2.9	na	na	+ 9.3	Aug	+ 5.4	+ 2.4	Jul	+ 0.9
New Zealand	+ 3.5	Q3	+ 3.4	na	na	+ 7.8	Q2	+ 4.7	+ 3.2	Q3	+ 3.1
Norway	+ 2.6	Sep	+ 2.0	na	na	+ 5.0	Sep	+17.9	+ 3.6	Q2	+ 3.8
Portugal	+ 3.0	Sep	+ 2.8	na	na	+ 4.3	Sep	+ 4.5	+ 1.1	Aug	+ 0.5

*RPI inflation rate 3.6% in Sep. †Jun-Aug.

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Money and interest rates

Nov 9th 2006
From The Economist print edition

	Money supply* % change on year ago			Interest rates % p.a. (Nov 8th 2006)					
				3-mth money market		2-year gov't bonds	10-year gov't bonds		corporate bonds
	narrow	broad		latest	year ago		latest	year ago	
Australia	+10.6	+11.2	Sep	6.39	5.63	6.08	5.64	5.51	6.78
Britain	+ 5.1	+14.5	Sep	5.19	4.56	5.00	4.56	4.39	5.55
Canada	+ 8.8	+ 7.6	Sep	4.18	3.15	3.97	4.03	4.18	5.16
Denmark	+ 8.4	+ 8.0	Sep	3.62	2.35	3.78	3.73	3.48	5.09
Japan	+ 0.7	+ 0.7	Oct	0.35	0.02	0.78	1.72	1.57	1.94
Sweden	– 0.4	+14.4	Sep	2.77	1.49	3.48	3.64	3.43	3.84
Switzerland	– 2.4	+ 1.6	Sep	1.87	0.94	2.19	2.34	2.20	2.52
United States	– 1.1	+ 4.4	Sep	5.33	4.06	4.76	4.63	4.63	5.58
Euro area†	+ 7.1	+ 8.5	Sep	3.58	2.31	3.75	3.72	3.49	4.35

*Narrow: M1 except Britain notes and coin and Sweden M0, broad: M2 or M3 except Britain M4. †Germany for bonds. Benchmarks: US 30-year 4.74%, Japan No. 283 1.72%. Central bank rates: US fed funds 5.25%, ECB refinancing 3.25%, BOJ overnight call 0.25%, BOE repo 4.75%. Sources: Bank of Canada, Commerzbank, Danske Bank, Global Insight, JPMorgan Chase, Lehman Brothers, Stockholmsbörsen, UBS, Westpac, Thomson Datastream. Rates cannot be construed as banks' offers.

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Stockmarkets

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From The Economist print edition

Market indices

	Nov 8th	2006 high	2006 low	% change on one week	% change on record high	% change on Dec 30th 2005 in local currency	% change on Dec 30th 2005 in $ terms
Australia (All Ordinaries)	5,425.1	5,456.7	4,708.8	+ 0.8	– 0.6	+15.2	+20.7
Austria (ATX)	4,126.4	4,344.4	3,324.1	+ 0.7	– 5.0	+12.5	+21.7
Belgium (Bel 20)	4,220.8	4,220.8	3,445.1	+ 1.3	nil	+18.9	+28.6
Britain (FTSE 100)	6,239.0	6,244.0	5,506.8	+ 1.5	– 10.0	+11.0	+23.1
Canada (Toronto Composite)	12,378.2	12,487.3	10,904.3	+ 2.7	– 0.9	+ 9.8	+13.6
Denmark (OMXCB)	405.7	405.7	325.0	+ 1.9	nil	+10.3	+19.3
France (SBF 250)	3,846.3	3,846.3	3,244.2	+ 1.4	– 12.4	+16.5	+26.0
France (CAC 40)	5,437.2	5,437.8	4,615.4	+ 1.2	– 21.5	+15.3	+24.7
Germany (DAX)*	6,349.3	6,362.0	5,292.1	+ 0.9	– 21.3	+17.4	+27.0
Italy (S&P/MIB)	40,408.0	40,408.0	34,850.0	+ 1.6	– 19.4	+13.2	+22.4
Japan (Nikkei 225)	16,215.7	17,563.4	14,218.6	– 1.0	– 58.3	+ 0.6	+ 0.7
Japan (Topix)	1,597.5	1,783.7	1,458.3	– 1.5	– 44.6	– 3.2	– 3.1
Netherlands (AEX)	497.5	497.5	412.9	+ 2.4	– 29.1	+13.9	+23.2
Spain (Madrid SE)	1,532.9	1,532.9	1,156.8	+ 1.9	nil	+32.6	+43.4
Sweden (Affarsvarlden Gen)	346.9	347.1	275.2	+ 1.2	– 13.3	+18.2	+31.4
Switzerland (Swiss Market)	8,776.7	8,835.6	7,154.9	+ 1.9	– 0.7	+15.7	+21.9
United States (DJIA)	12,176.5	12,176.5	10,667.4	+ 1.2	nil	+13.6	+13.6
United States (S&P 500)	1,385.7	1,389.1	1,223.7	+ 1.3	– 9.3	+11.0	+11.0
United States (NASDAQ Comp)	2,384.9	2,384.9	2,020.4	+ 2.2	– 52.8	+ 8.1	+ 8.1
Europe (FTSEurofirst 300)†	1,470.0	1,470.9	1,238.7	+ 1.4	– 13.8	+15.2	+24.6
Euro area (FTSE Euro 100)†	1,257.5	1,257.5	1,050.0	+ 1.5	– 18.9	+15.5	+24.9
World (MSCI)‡	1,433.3	1,436.0	1,243.9	+ 1.0	– 1.1	+14.0	+14.0
World bond market (Citigroup)††	650.7	654.2	612.1	– 0.5	– 2.4	+ 4.9	+ 4.9

*Total return index. †In euro terms. ‡Morgan Stanley Capital International index includes individual markets listed above plus eight others, in $ terms. ††Citigroup World Government Bond Index, total return, in $ terms.

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Trade, exchange rates and budgets

Nov 9th 2006
From The Economist print edition

	Trade balance*, $bn latest 12 months	Current-account balance $bn latest 12 mths	Current-account balance The Economist poll % of GDP, forecast 2006	Current-account balance The Economist poll % of GDP, forecast 2007	Exchange rate trade-weighted† 2000=100 Nov 8th	Exchange rate trade-weighted† 2000=100 year ago	Currency units per $ Nov 8th	Currency units per $ year ago	Currency units per £	Currency units per euro	Currency units per ¥100	Budget balance % of GDP 2006‡
Australia	− 9.6 Sep	− 41.0 Q2	− 5.6	− 5.2	119.3	117.0	1.30	1.36	2.48	1.66	1.10	+ 0.9
Austria	− 1.8 Aug	+ 9.2 Q2	+ 1.1	+ 1.1	105.8§	105.1	0.78	0.85	1.49	–	0.66	− 1.9
Belgium	+ 15.9 Aug	+ 6.5 Jun	+ 1.8	+ 1.9	107.6§	106.8	0.78	0.85	1.49	–	0.66	− 0.4
Britain	−142.0 Aug	− 64.4 Q2	− 2.6	− 2.8	102.7	99.3	0.53	0.57	–	0.67	0.45	− 3.4
Canada	+ 57.8 Aug	+ 28.6 Q2	+ 1.4	+ 0.9	127.7	122.6	1.13	1.19	2.15	1.44	0.96	+ 2.2
Denmark	+ 7.9 Aug	+ 7.0 Aug	+ 2.0	+ 1.9	106.4	105.6	5.84	6.36	11.1	7.46	4.96	+ 3.3
France	− 35.0 Aug	− 39.8 Aug	− 1.5	− 1.2	108.5§	107.5	0.78	0.85	1.49	–	0.66	− 2.9
Germany	+187.4 Sep	+107.5 Sep	+ 3.6	+ 3.7	110.2§	108.9	0.78	0.85	1.49	–	0.66	− 3.1
Italy	− 25.5 Aug	− 34.6 Aug	− 1.8	− 1.7	108.1§	107.1	0.78	0.85	1.49	–	0.66	− 4.2
Japan	+ 78.9 Aug	+166.9 Aug	+ 3.6	+ 3.6	79.3	82.7	118	117	224	150	–	− 5.2
Netherlands	+ 38.2 Aug	+ 46.2 Q2	+ 6.3	+ 5.7	108.5§	107.5	0.78	0.85	1.49	–	0.66	− 0.5
Spain	−106.4 Aug	− 97.1 Jul	− 8.1	− 7.8	105.9§	105.3	0.78	0.85	1.49	–	0.66	+ 1.1
Sweden	+ 19.1 Sep	+ 24.1 Q2	+ 6.4	+ 5.9	99.5	92.9	7.16	8.18	13.6	9.13	6.07	+ 1.7
Switzerland	+ 8.8 Sep	+ 55.3 Q2	+13.5	+12.9	104.4	106.8	1.25	1.31	2.38	1.60	1.06	− 0.2
United States	−850.9 Aug	−838.1 Q2	− 6.6	− 6.5	83.9	88.1	–	–	1.90	1.28	0.85	− 3.6
Euro area	− 24.6 Aug	− 44.1 Aug	− 0.4	− 0.1	118.7	114.5	0.78	0.85	1.49	–	0.66	− 2.3
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Finland	+ 11.1 Aug	+ 11.8 Aug	na	na	109.2§	108.3	0.78	0.85	1.49	–	0.66	+ 2.2
Greece	− 40.5 Aug	− 26.1 Aug	na	na	105.0§	104.3	0.78	0.85	1.49	–	0.66	− 3.0
Iceland	− 1.9 Sep	− 3.4 Q2	na	na	85.6**	100.9	68.3	62.0	130	87.1	57.9	+ 2.0
Ireland	+ 37.4 Aug	− 6.0 Q2	na	na	113.9§	112.4	0.78	0.85	1.49	–	0.66	− 0.3
Luxembourg	− 5.4 Aug	+ 4.2 Q2	na	na	107.6§	106.8	0.78	0.85	1.49	–	0.66	− 1.7
New Zealand	− 4.1 Sep	− 10.2 Q2	na	na	130.5	138.3	1.50	1.46	2.86	1.91	1.27	+ 4.6
Norway	+ 59.8 Sep	+ 56.5 Q2	na	na	106.3	112.8	6.46	6.60	12.3	8.24	5.48	+ 18.5
Portugal	− 22.5 Jul	− 16.4 Aug	na	na	105.9**	105.0	0.78	0.85	1.49	–	0.66	− 5.0

*Merchandise. Australia, Britain, France, Canada, Japan and United States imports fob, exports fob. All others cif/fob. †Bank of England except §IMF, August average. ‡OECD forecast. **IMF, June average.

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The Economist commodity price index

Nov 9th 2006
From The Economist print edition

2000=100

	Oct 31st	Nov 7th*	% change on one month	% change on one year
Dollar index				
All items	184.3	186.7	+ 5.3	+ 38.3
Food	147.0	151.0	+ 6.9	+ 22.8
Industrials				
All	232.5	232.8	+ 4.1	+ 54.8
Nfa†	137.0	137.1	+ 1.1	+ 3.6
Metals	284.6	284.9	+ 4.9	+ 78.0
Sterling index				
All items	146.5	148.3	+ 2.4	+ 26.0
Euro index				
All items	133.5	134.8	+ 3.2	+ 27.1
Yen index				
All items	200.4	203.4	+ 3.4	+ 38.5
Gold				
$ per oz	605.40	626.00	+ 9.1	+ 35.7
West Texas Intermediate				
$ per barrel	58.49	59.00	+ 0.9	– 1.0

*Provisional. †Non-food agriculturals.

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Money supply

Nov 9th 2006
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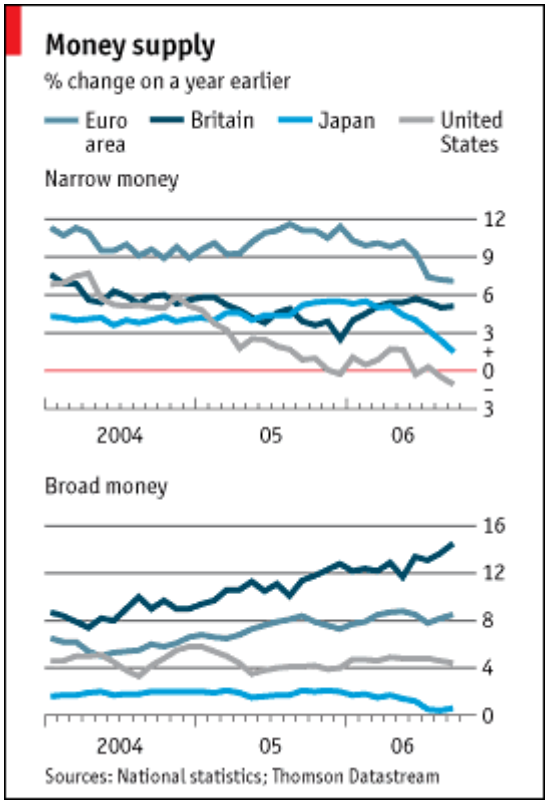

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Overview

Nov 9th 2006
From The Economist print edition

China's trade surplus surged to $23.8 billion in October, much higher than the previous record of $18.8 billion set in August. It has chalked up a surplus of $155.2 billion in the year to October.

Inflation eased a little in **Turkey**. Consumer prices rose by 10.0% in the year to October, slower than the 10.6% rise recorded in the year to September.

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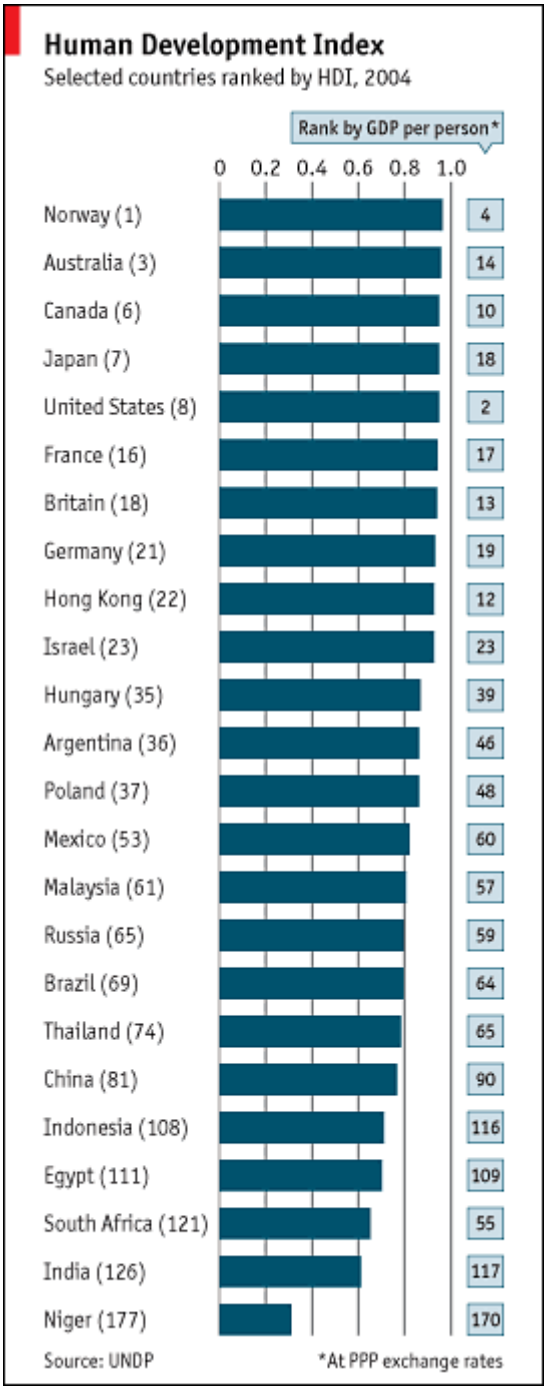
Human Development Index

Nov 9th 2006
From The Economist print edition

Norway gives its citizens the best chance of a long, prosperous and fulfilled life, according to this year's Human Development Index, from the United Nations. The index blends measures of material prosperity, longevity and schooling. For example, Australia's annual income per head adjusted for purchasing power is $9,000 lower than America's; nonetheless it ranks five places above America in the index, because Australians are better educated and live longer.



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Economy

Nov 9th 2006
From The Economist print edition

	% change on year ago						Latest 12 months, $bn				Foreign reserves* $bn, latest	
	GDP		Industrial production		Consumer prices		Trade balance		Current account			
China	+10.4	Q3	+16.1	Sep	+ 1.5	Sep	+155.2	Oct	+160.8	2005	987.9	Sep
Hong Kong	+ 5.2	Q2	+ 5.3	Q2	+ 2.1	Sep	−15.9	Sep	+18.6	Q2	131.2	Oct
India	+ 8.9	Q2	+ 9.7	Aug	+ 6.8	Sep	−42.0	Sep	−13.2	Q2	160.2	Oct
Indonesia	+ 5.2	Q2	+ 6.2	Aug	+ 6.3	Oct	+37.0	Sep	+ 4.1	Q2	38.4	Oct
Malaysia	+ 5.9	Q2	+ 3.6	Sep	+ 3.3	Sep	+28.6	Sep	+20.0	Q2	79.3	Sep
Pakistan	+ 6.6	2006†	+ 7.5	Aug§	+ 8.7	Sep	−12.8	Sep	− 5.0	Q2	10.9	Sep
Philippines	+ 5.5	Q2	− 7.0	Aug	+ 5.4	Oct	− 4.1	Aug	+ 4.3	Jun	19.4	Oct
Singapore	+ 7.1	Q3	+ 7.6	Sep	+ 0.4	Sep	+33.7	Sep	+38.3	Q2	131.9	Oct
South Korea	+ 4.6	Q3	+16.3	Sep	+ 2.1	Oct	+14.9	Oct	+ 6.9	Sep	229.5	Oct
Taiwan	+ 4.6	Q2	+ 2.1	Sep	− 1.2	Oct	+21.7	Oct	+20.6	Q2	261.8	Oct
Thailand	+ 4.9	Q2	+ 5.0	Sep	+ 2.8	Oct	− 1.2	Sep	+ 3.7	Sep	60.0	Sep
Argentina	+ 7.9	Q2	+ 6.6	Sep	+10.5	Oct	+11.5	Sep	+ 7.4	Q2	27.0	Sep
Brazil	+ 1.2	Q2	+ 1.3	Sep	+ 3.7	Sep	+46.5	Oct	+13.3	Sep	70.8	Sep
Chile	+ 4.5	Q2	− 2.6	Sep	+ 2.1	Oct	+21.2	Oct	+ 2.2	Q2	17.5	Oct
Colombia	+ 6.0	Q2	+12.5	Aug	+ 4.2	Oct	+ 0.7	Jul	− 2.2	Q2	14.9	Sep
Mexico	+ 4.7	Q2	+ 5.8	Aug	+ 4.1	Sep	− 5.3	Sep	− 0.6	Q2	82.4	Sep
Peru	+ 9.2	Aug	+ 9.9	Aug	+ 1.9	Oct	+ 7.4	Aug	+ 1.3	Q2	14.5	Sep
Venezuela	+ 9.2	Q2	+ 7.8	Jul	+ 8.7	Oct	+37.2	Q2	+29.5	Q2	27.6	Aug
Egypt	+ 5.9	Q1	+ 4.0	2005†	+ 9.6	Sep	−11.2	Q1	+ 2.1	Q1	24.0	Oct
Israel	+ 6.2	Q2	+ 8.1	Aug	+ 1.3	Sep	− 7.5	Sep	+ 5.8	Q2	27.5	Oct
Saudi Arabia	+ 6.6	2005‡	na		+ 2.2	Aug	+125.6	2005	+90.0	2005	25.4	Aug
South Africa	+ 3.6	Q2	+ 4.2	Aug	+ 5.3	Sep	− 7.6	Sep	−13.3	Q2	22.1	Oct
Czech Republic	+ 6.2	Q2	+ 5.8	Sep	+ 1.3	Oct	+ 1.8	Sep	− 3.8	Q2	30.5	Oct
Hungary	+ 3.8	Q2	+11.6	Sep	+ 5.9	Sep	− 3.1	Sep	− 7.6	Q2	20.7	Oct
Poland	+ 5.5	Q2	+11.7	Sep	+ 1.6	Sep	− 3.6	Aug	− 6.6	Aug	46.7	Sep
Russia	+ 7.4	Q2	+ 4.1	Sep	+ 9.2	Oct	+142.3	Aug	+101.4	Q3	265.0	Oct
Turkey	+ 7.5	Q2	+ 4.0	Sep	+10.0	Oct	−51.4	Sep	−32.6	Sep	58.5	Sep
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*											
Estonia	+12.0	Q2	+ 1.8	Sep	+ 3.8	Sep	− 2.9	Jul	− 1.9	Aug	2.3	Aug
Latvia	+10.9	Q2	+ 7.6	Aug	+ 5.9	Sep	− 4.1	Aug	− 3.1	Aug	3.9	Aug
Lithuania	+ 6.3	Q3	na		+ 3.2	Sep	− 4.4	Aug	− 2.6	Aug	4.1	Aug
Slovakia	+ 6.2	Q2	+13.7	Aug	+ 4.6	Sep	− 3.1	Aug	− 4.4	Jun	12.5	Aug
Slovenia	+ 4.9	Q2	+10.9	Aug	+ 2.5	Sep	− 1.8	Aug	− 0.7	Aug	7.7	Jul

*Excluding gold, except Singapore and China; IMF definition. †Year ending June. ‡Economist Intelligence Unit estimate. §New series.
Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Reuters; WM/Reuters; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; Bank Leumi le-Israel; Standard Bank Group

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Financial markets

Nov 9th 2006
From The Economist print edition

Financial markets

	Currency units			Interest rates	Stockmarkets	% change on		
	per $		per £	short-term	Nov 8th		Dec 30th 2005	
	Nov 8th	year ago	Nov 8th	% a year		one week	in local currency	in $ terms
China	7.87	8.09	15.0	2.80	1,961.3	+0.6	+ 60.6	+ 64.8
Hong Kong	7.78	7.76	14.8	3.97	18,811.2	+1.9	+ 26.4	+ 25.9
India	44.7	45.8	85.1	6.63	13,072.5	+0.3	+ 39.1	+ 40.1
Indonesia	9,110	9,940	17,339	10.40	1,646.1	+3.5	+ 41.6	+ 52.9
Malaysia	3.64	3.78	6.93	3.78	1,007.3	+1.8	+ 11.9	+ 16.2
Pakistan	60.7	59.8	116	10.30	10,973.1	-0.3	+ 14.8	+ 13.1
Philippines	49.9	54.7	94.9	6.19	2,755.3	+1.7	+ 31.5	+ 39.8
Singapore	1.56	1.70	2.97	3.47	2,735.3	-0.1	+ 16.5	+ 24.1
South Korea	935	1,047	1,780	4.61	1,380.1	+0.4	+ 0.1	+ 8.2
Taiwan	32.9	33.6	62.5	1.84	7,178.3	+2.3	+ 9.6	+ 9.6
Thailand	36.8	41.2	69.9	5.25	738.9	+1.1	+ 3.5	+ 15.5
Argentina	3.07	2.97	5.85	10.19	1,839.9	+2.5	+ 19.2	+ 17.5
Brazil	2.15	2.17	4.08	13.68	41,334.0	+3.5	+ 23.6	+ 34.5
Chile	525	533	999	5.16	11,305.8	+2.1	+ 22.8	+ 19.8
Colombia	2,278	2,282	4,336	6.49	10,595.5	+2.1	+ 11.4	+ 11.8
Mexico	10.9	10.7	20.7	7.04	23,930.6	+3.9	+ 34.4	+ 31.7
Peru	3.22	3.36	6.12	4.48	11,125.4	+4.0	+131.7	+147.1
Venezuela	2,989§	2,959§	5,690	10.44	37,600.2	-1.4	+ 84.4	+ 59.5
Egypt	5.73	5.76	10.90	9.45	56,871.0	-3.5	+ 2.7	+ 3.0
Israel	4.34	4.69	8.26	5.06	920.4	+0.4	+ 11.2	+ 17.9
Saudi Arabia	3.75	3.75	7.14	5.19	8,427.2	-9.7	- 49.6	- 49.6
South Africa	7.33	6.74	14.0	8.65	23,952.7	+1.5	+ 32.4	+ 14.5
Czech Republic	22.0	25.0	41.8	2.67	1,554.2	+0.1	+ 5.5	+ 18.3
Hungary	205	213	391	8.20	23,066.5	+3.0	+ 11.0	+ 15.6
Poland	3.01	3.42	5.73	4.20	49,437.1	+4.4	+ 38.9	+ 50.3
Russia	26.7	28.8	50.8	11.00	1,663.2‡	+1.1	+ 37.3	+ 47.8
Turkey	1.46	1.36	2.77	19.48	39,736.7	-2.1	- 0.1	- 7.3
EM (MSCI)*	1.00	1.00	1.90	na	836.0	+1.7	+ 18.3	+ 18.3
EMBI+†	1.00	1.00	1.90	na	400.5	+0.1	+ 8.7	+ 8.7

* Emerging Mkts. †JPMorgan Chase's Emerging Mkts Bond Index Plus. ‡In $ terms. §Trading market value.

Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Reuters; WM/Reuters; Hong Kong Monetary Authority; Centre for Monitoring Indian Economy; Bank Leumi le-Israel; Standard Bank Group

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